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Intelligence Report

Office of Transnational Issues
DI Colombia Working Group

Colombia's Growing Underground Economy: Eroding Economic Prospects and State Capacity

A Research Paper

CIA-OTI-IR 2001-045

CIA-APLA-2001-41602

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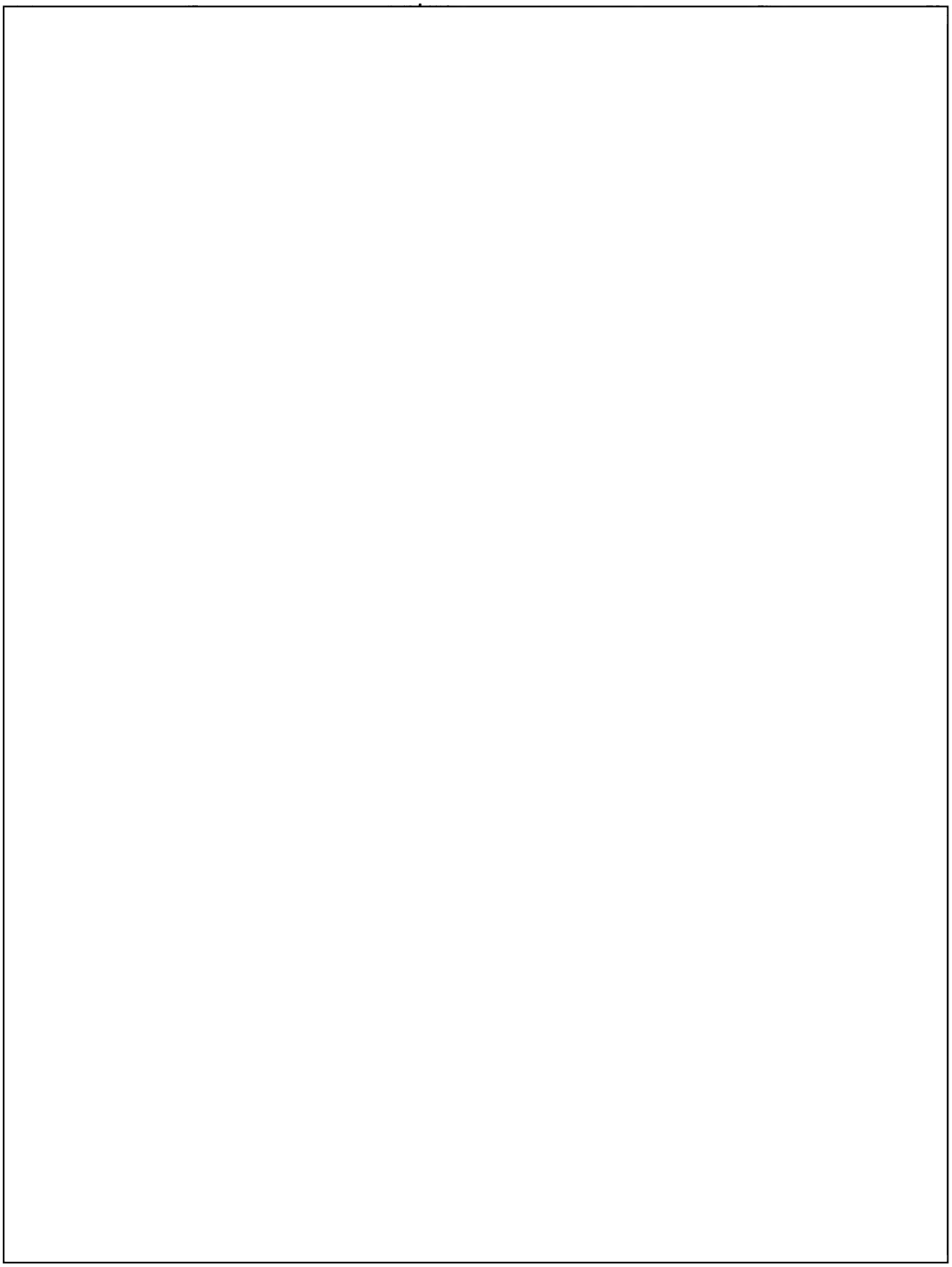
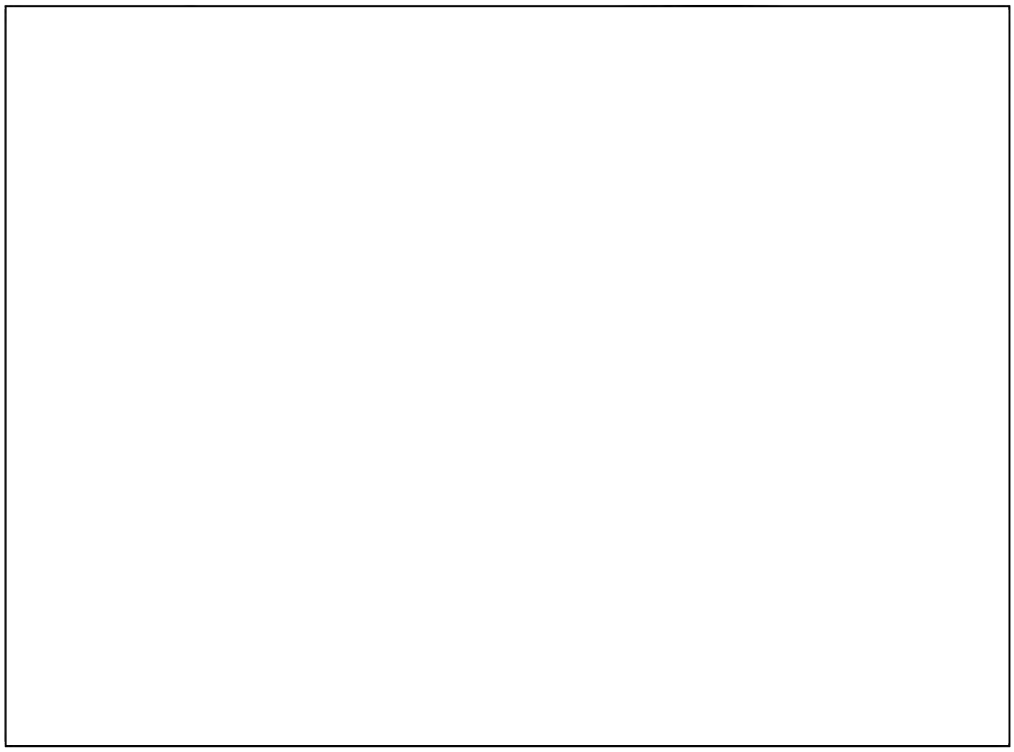
Colombia's Growing Underground Economy: Eroding Economic Prospects and State Capacity

Key Findings

- The **drug economy** is increasing because of an explosion of illicit crops since the mid-1990s; Colombia has become the world's top producer and trafficker of cocaine. In areas where the drug industry is concentrated, it skews local prices, wages, credit, and investment.





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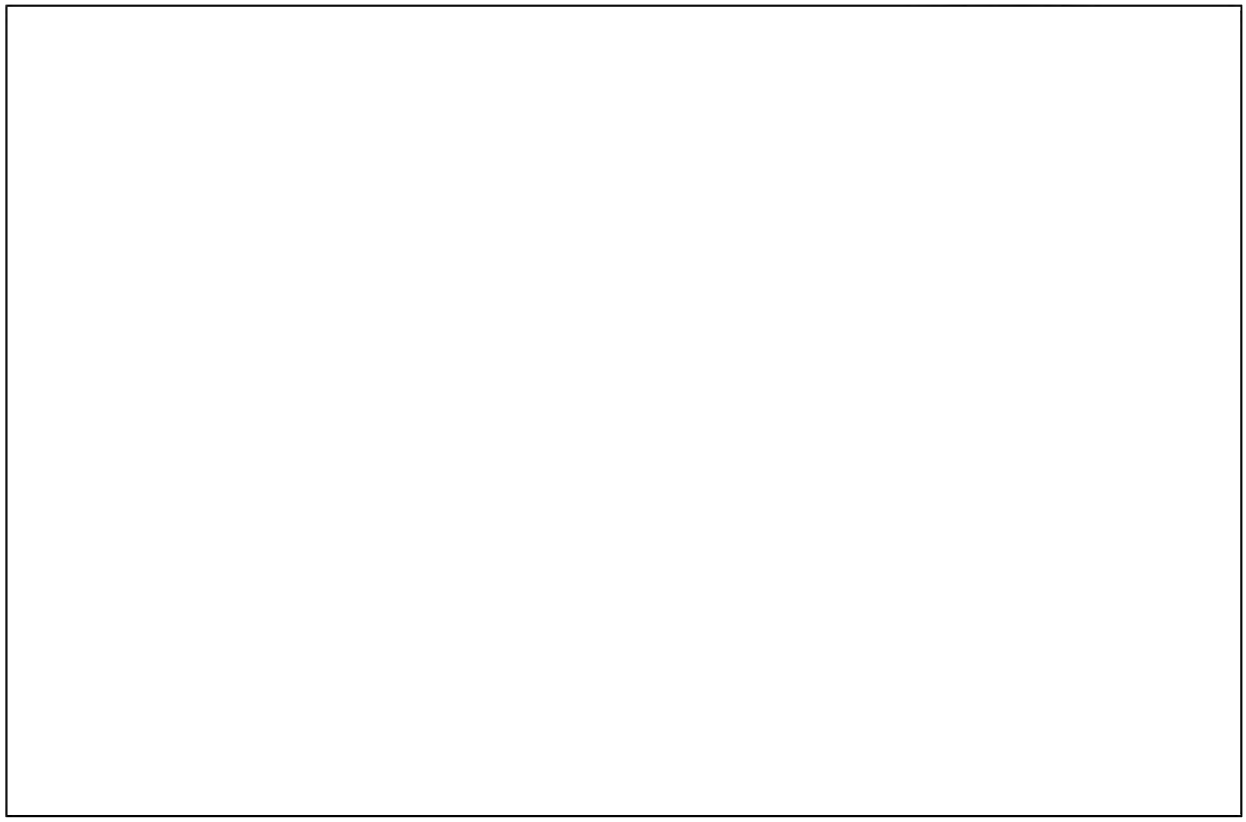
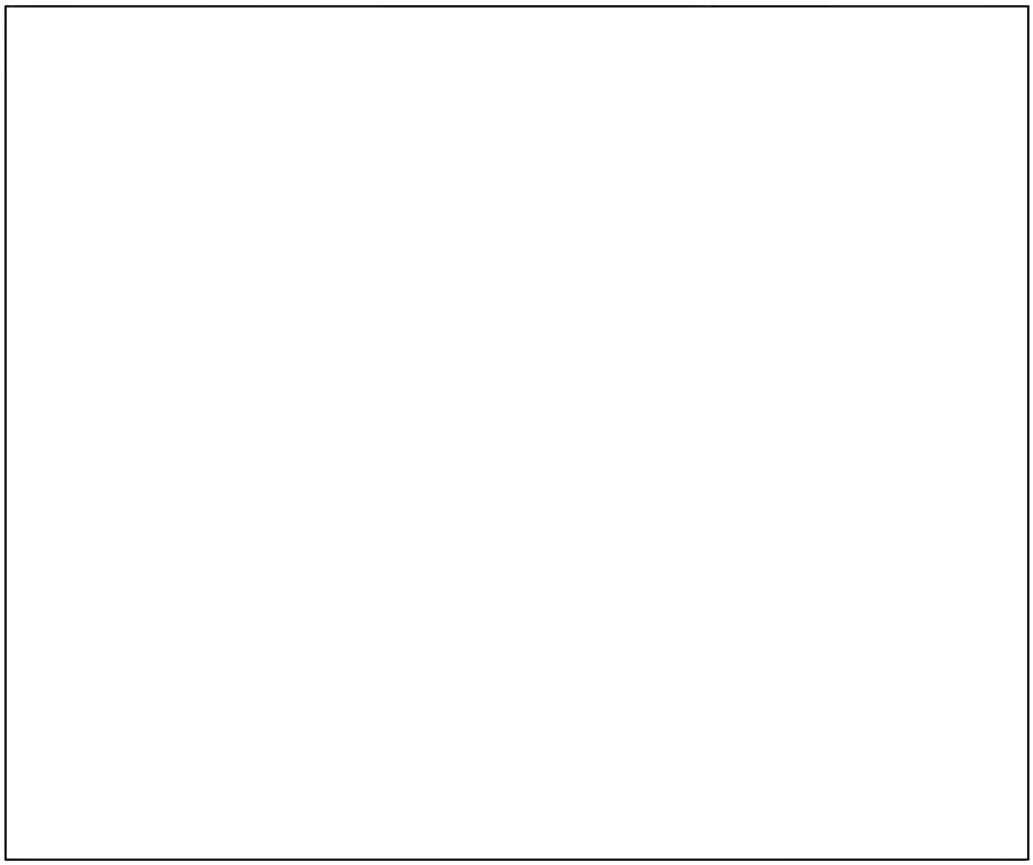
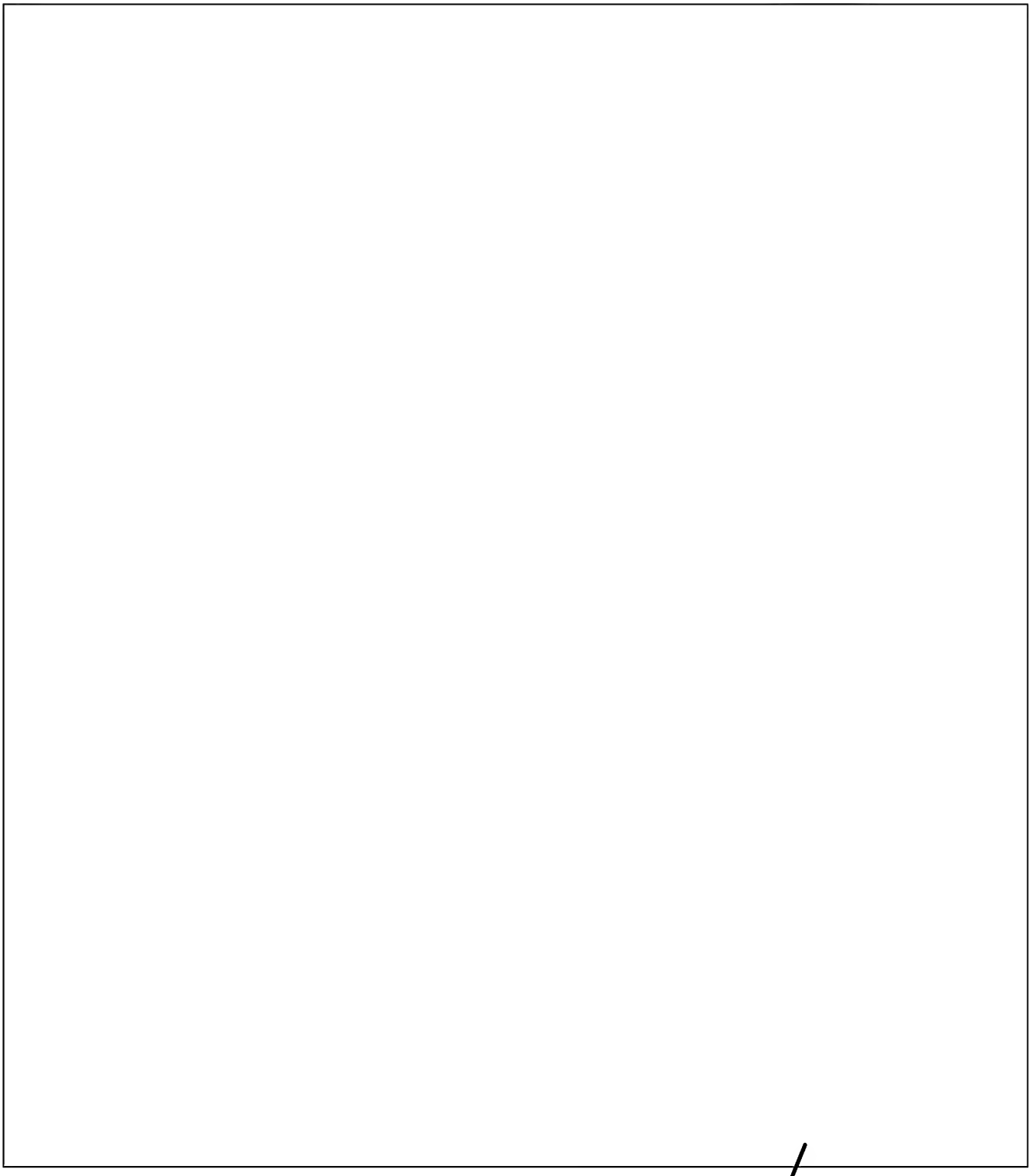
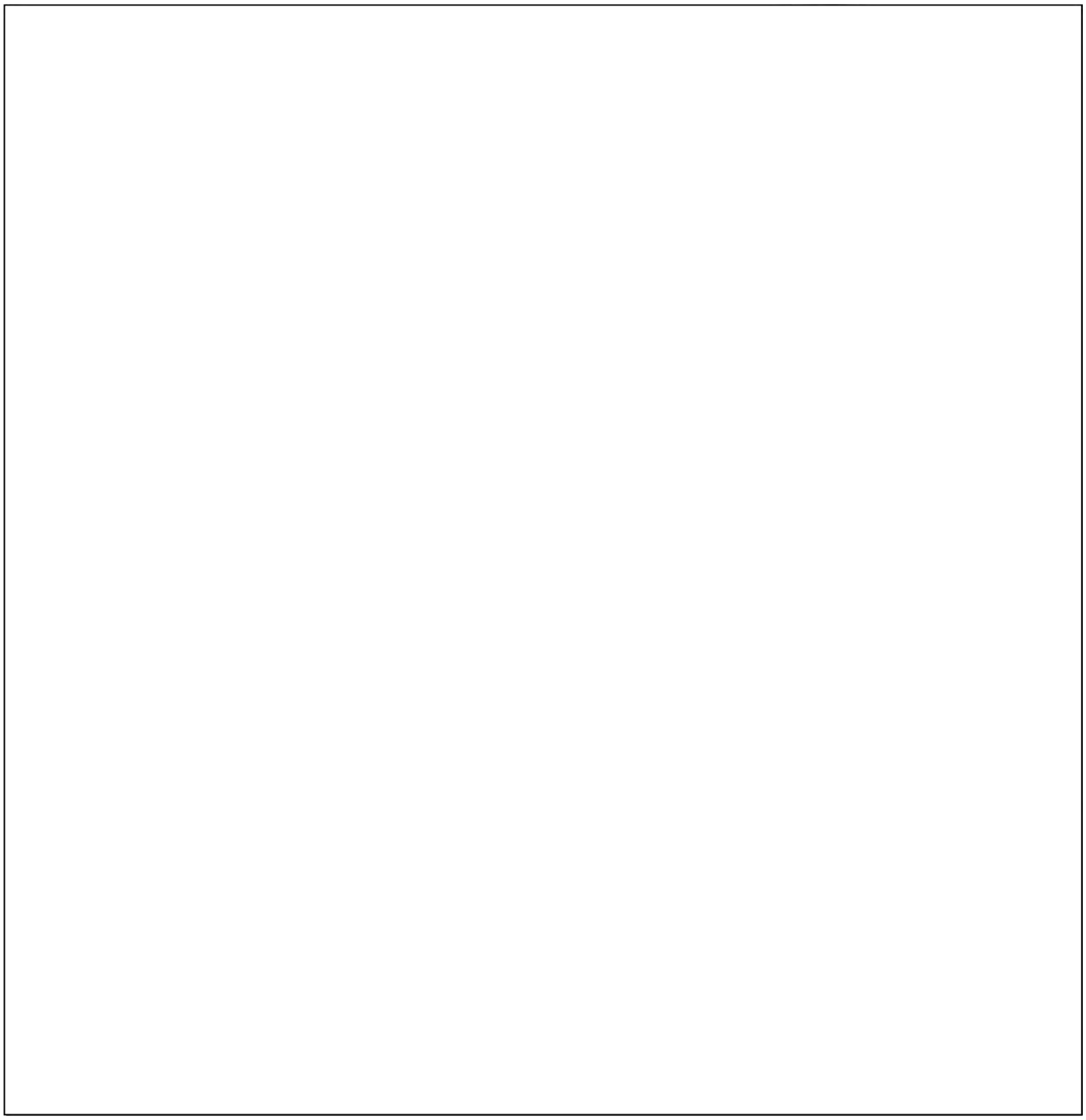
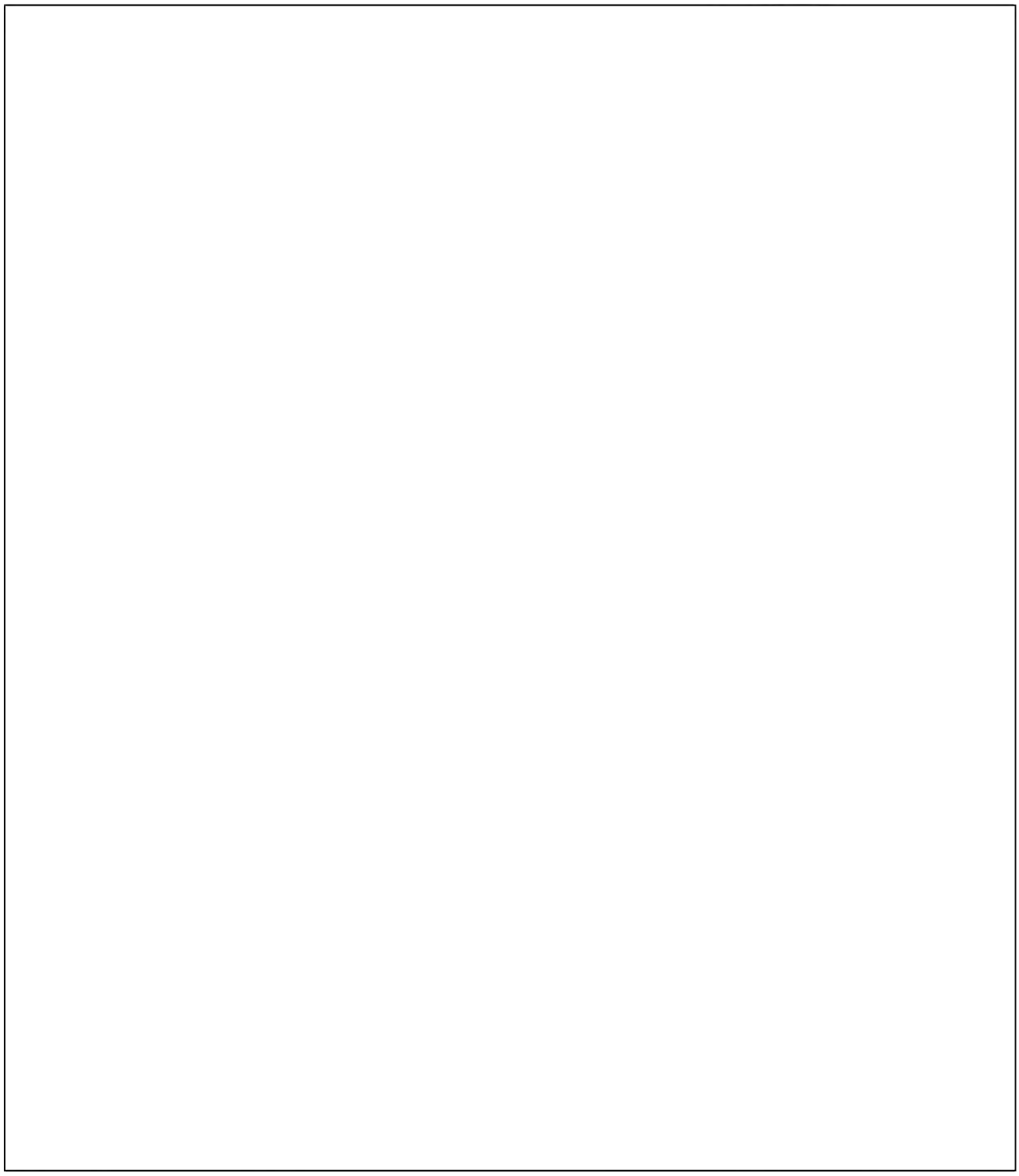
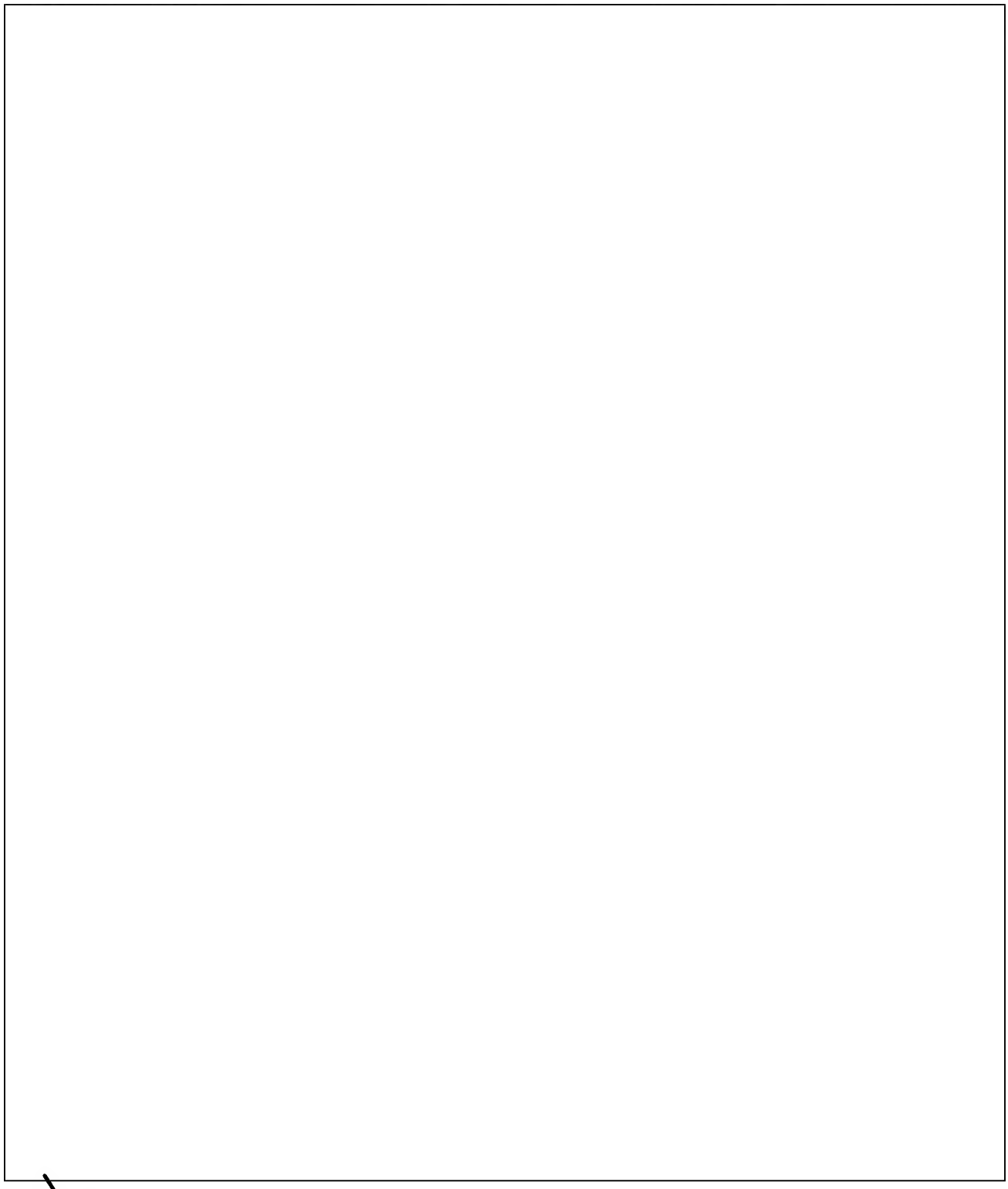












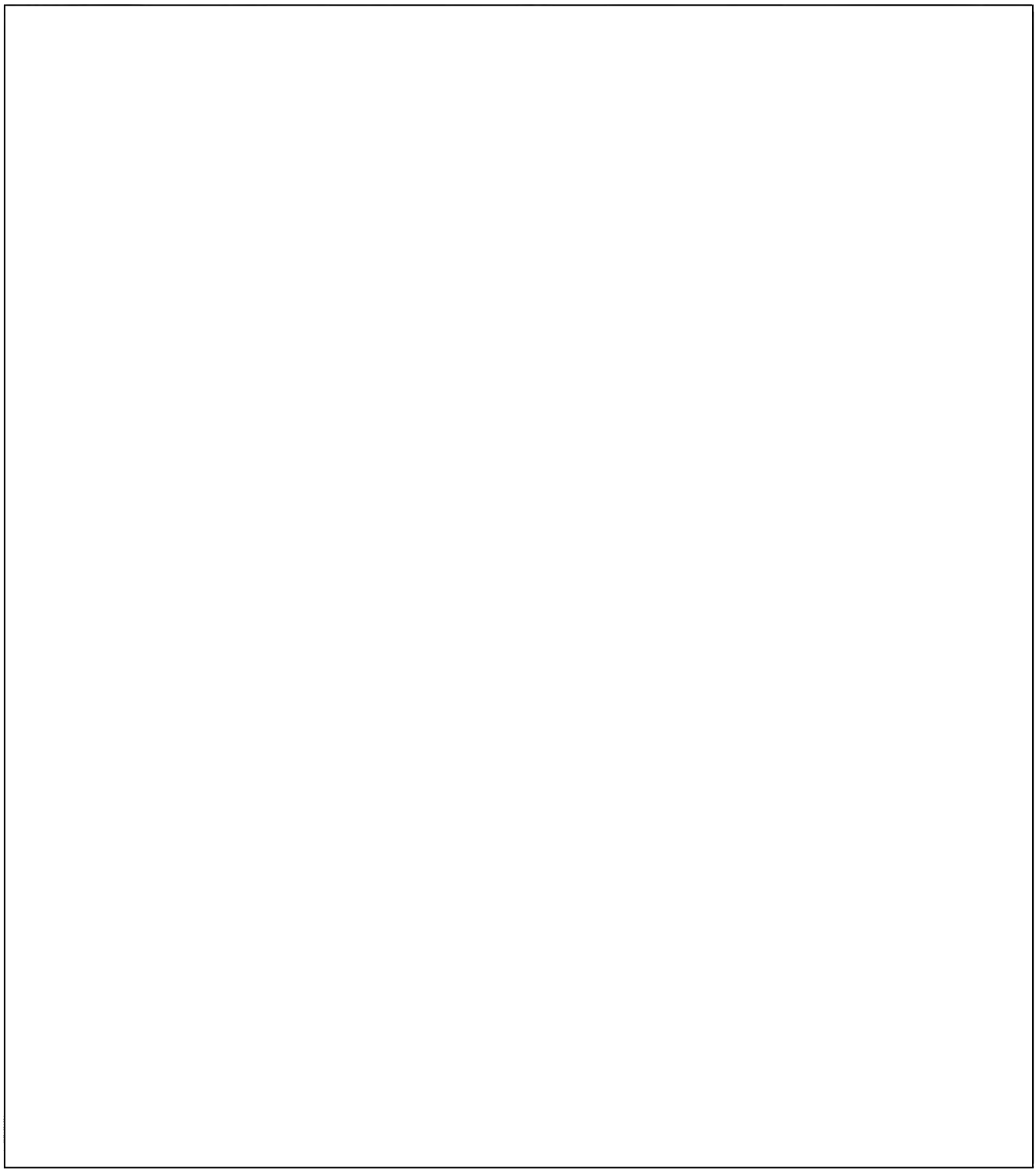
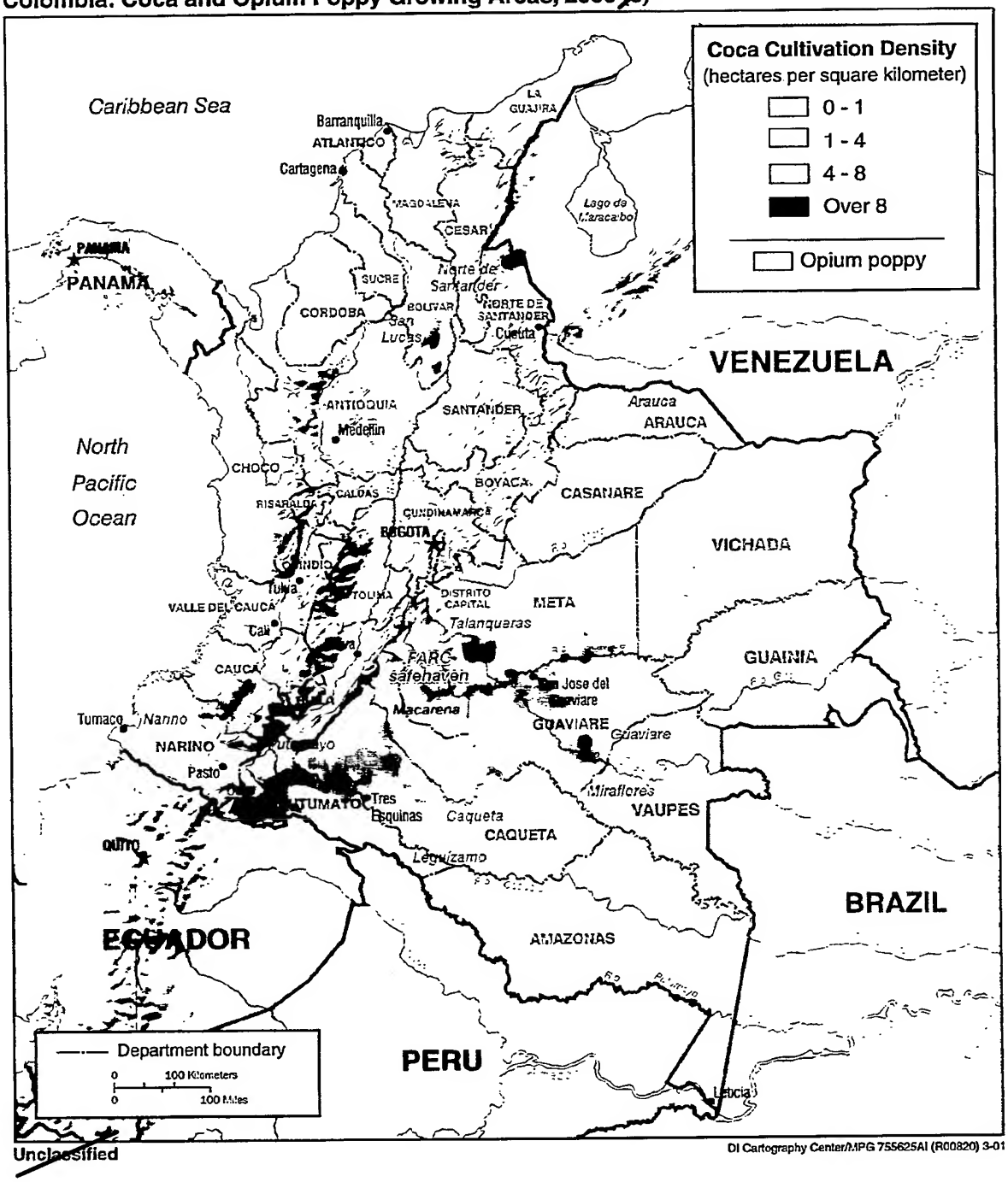


Figure 3
Colombia: Coca and Opium Poppy Growing Areas, 2000 (U)



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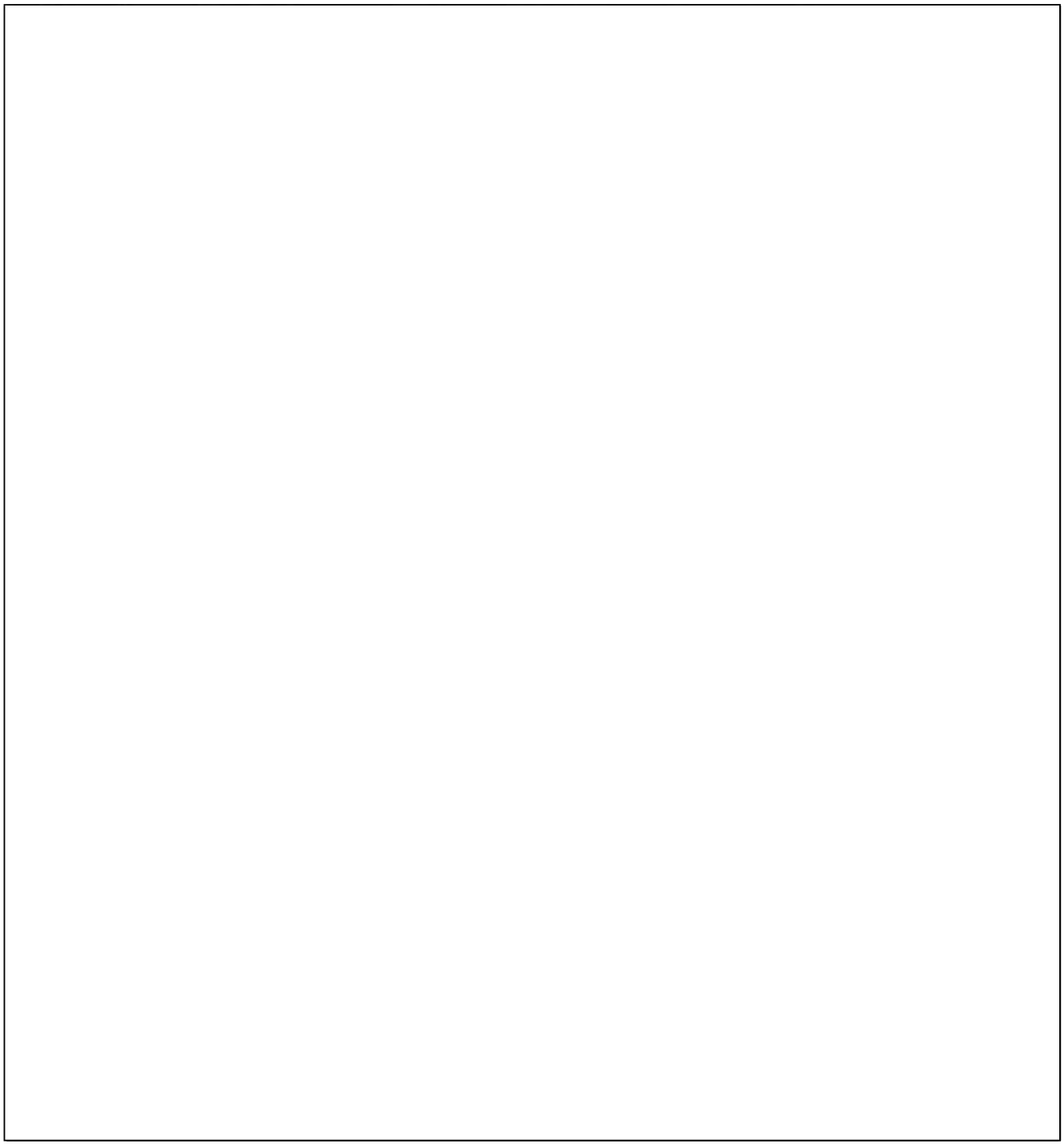
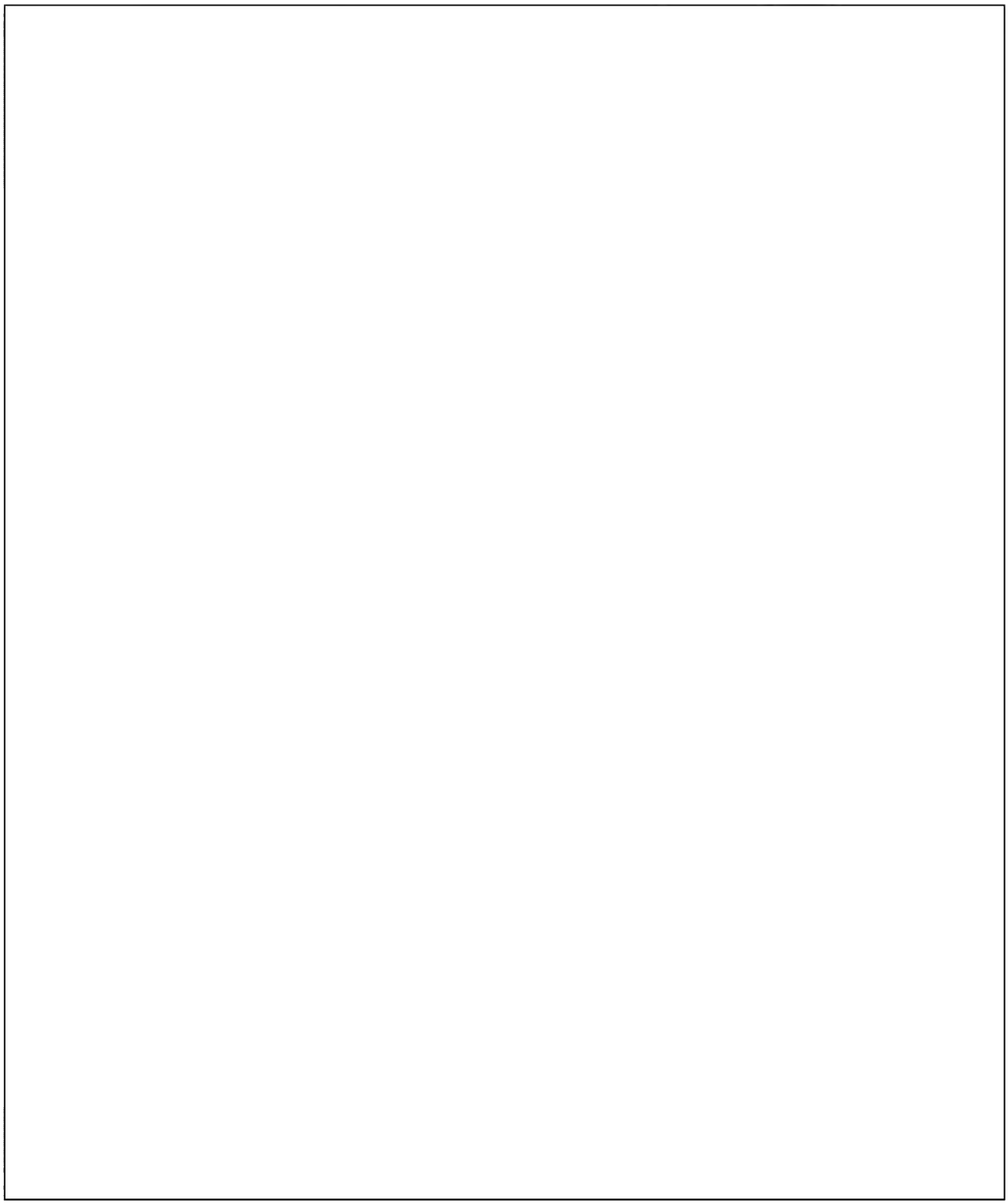
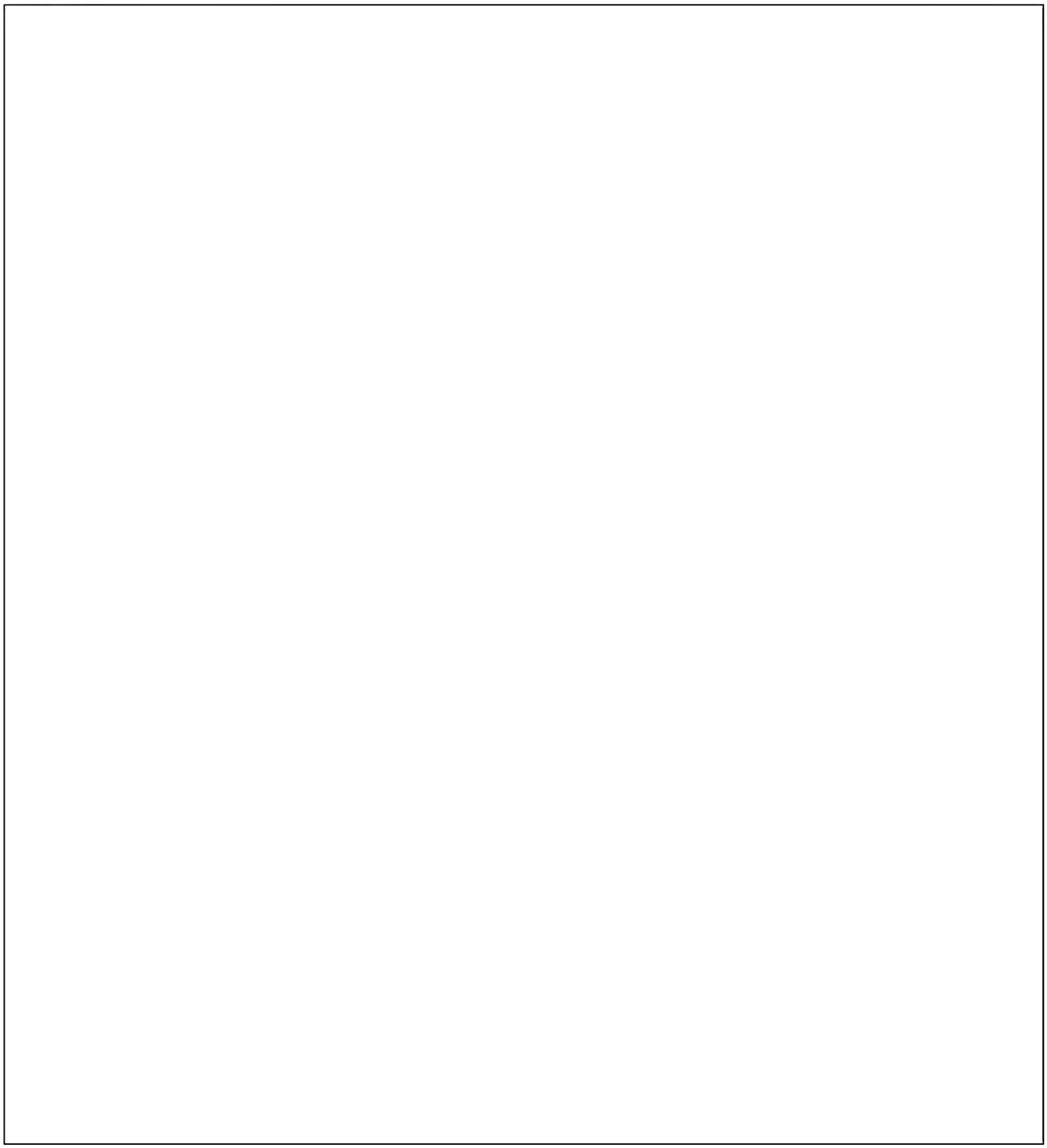
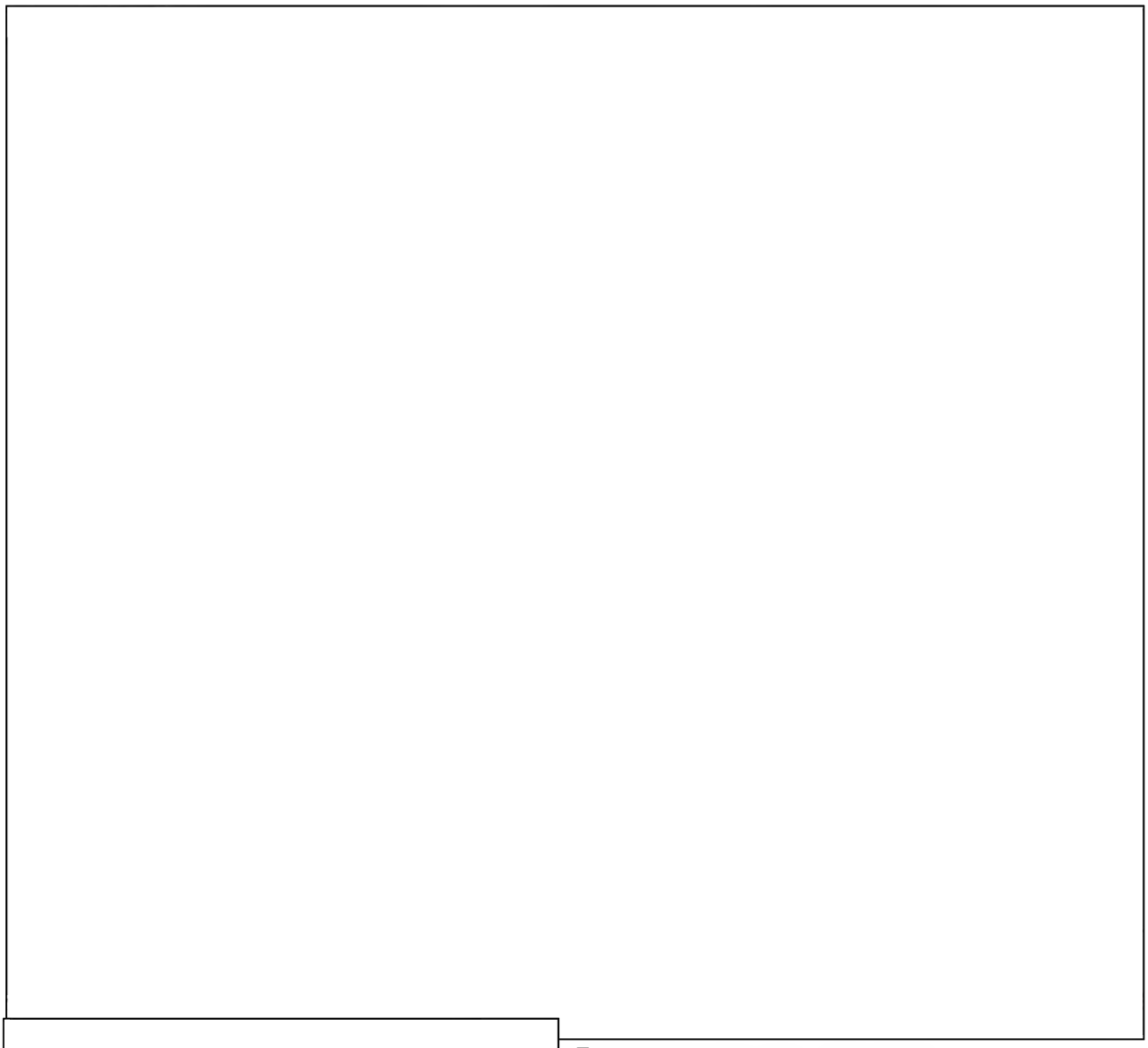




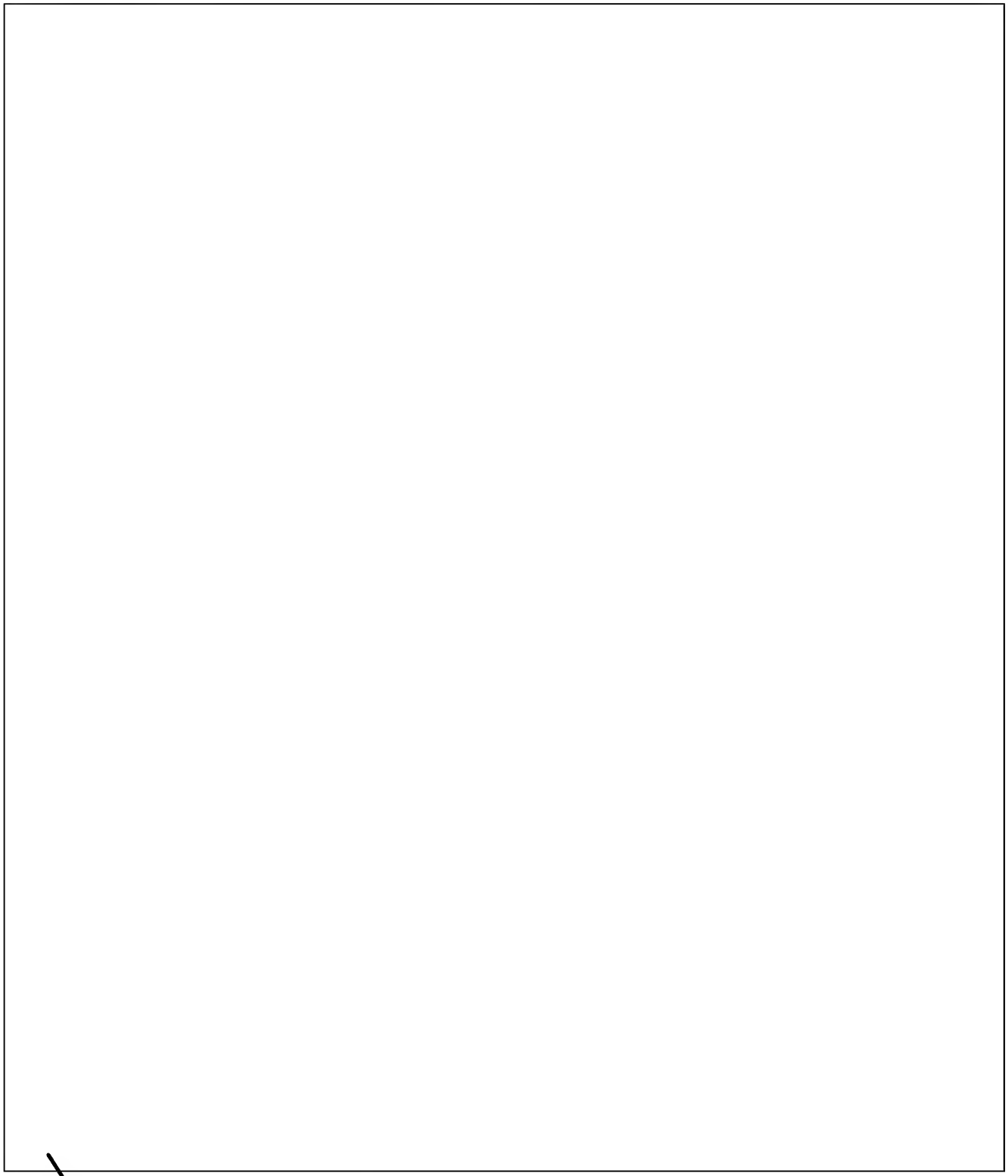




Promoting Alternative Development

Alternative development is critical to providing a livelihood for the coca and poppy growers and harvesters. Plan Colombia endorses this concept, but Bogotá—strapped for cash and distracted by the peace process—needs to intensify its efforts, which are progressing slowly in Putumayo:

- Because illicit crops will always be far more profitable than licit crops, alternative development



demands physical security. Government presence—both to protect those engaged in alternative development and to ensure that they do not revert to illegal crops—is essential.

- Alternatives should develop the entire production chain—growers of legitimate crops need harvesters at affordable wages, means to move products, and a viable market. Some growers are in areas that are not economically viable for any legal crops or industries; they should be relocated to work in other agricultural or manufacturing endeavors.

- Experts note that the government could make productive use of land seized from traffickers but acknowledge that finding buyers is difficult because of the physical and legal risks they would face.

Alternative Development in Colombia: A Reality Check

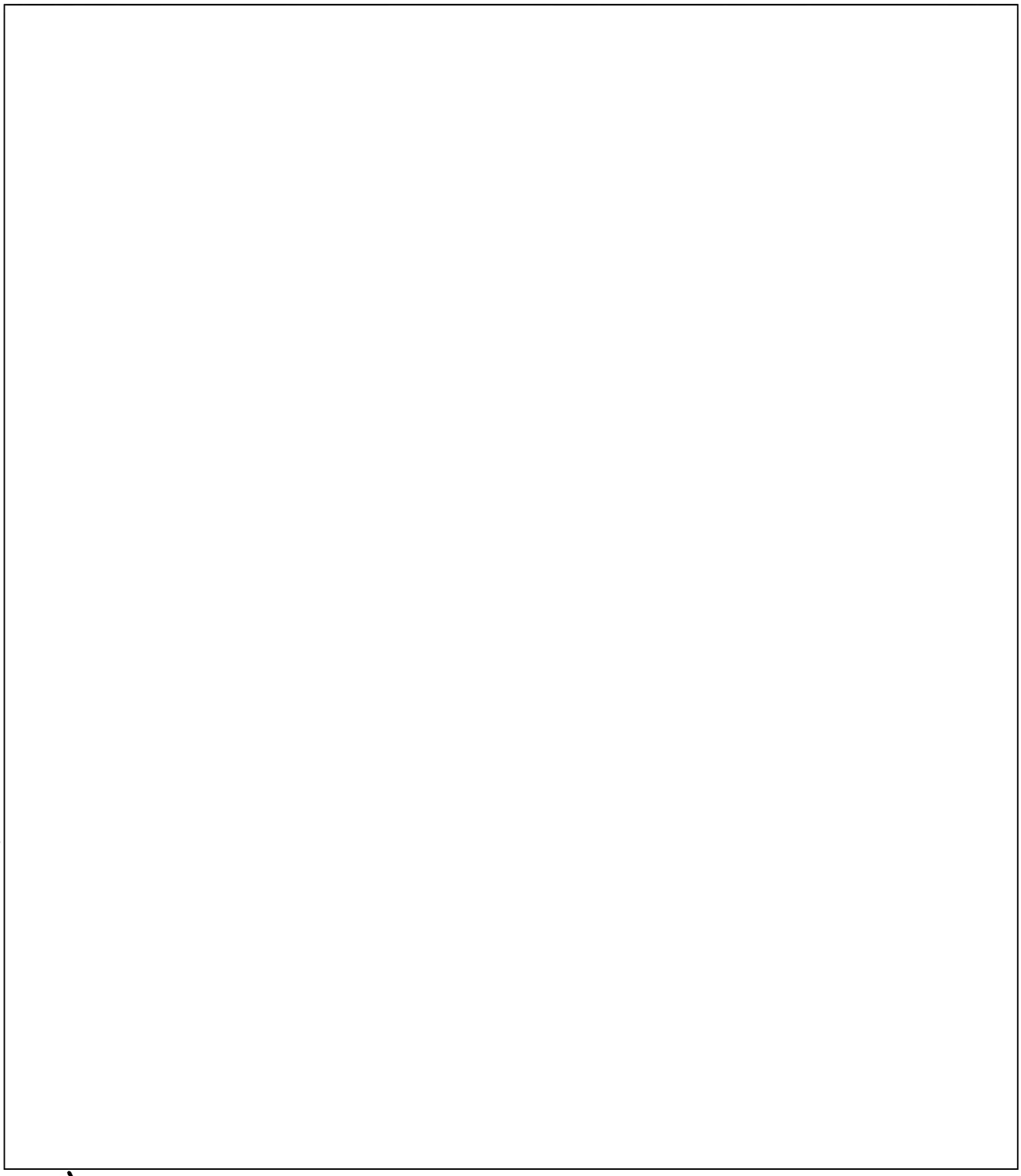
In December 1999, *asserted that targeted annual investment in Putumayo of $6 million for three years—with proper implementation and international financial controls—would wipe out the department's coca crop. In reality, the process of phasing the region out of coca production and into alternative crops is proceeding slowly, and officials are cautious about projecting success. Insufficient security and inadequate roads are the major obstacles:*

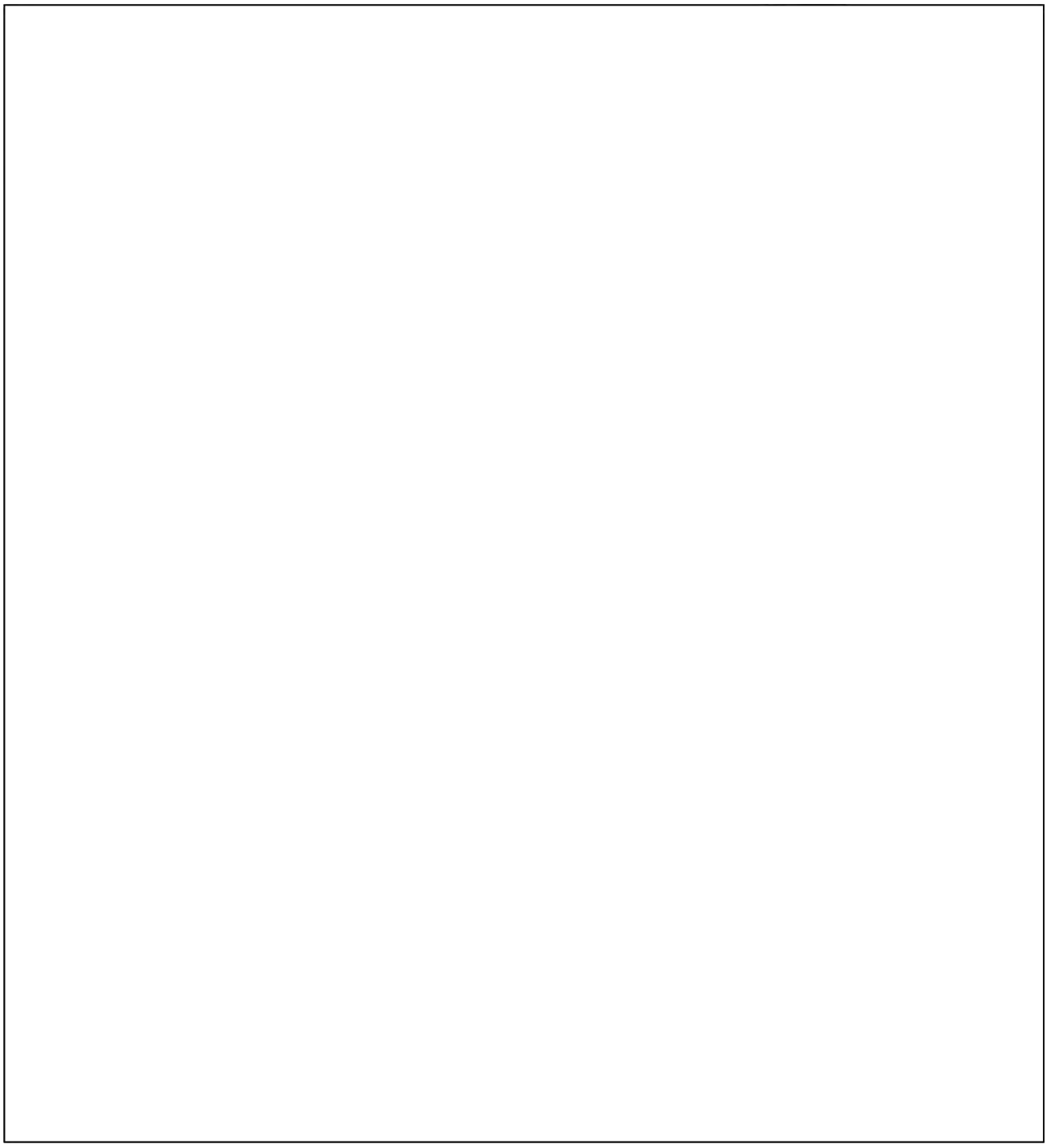
- *Physical security underpins efficiency in rural enterprises. People working in the agricultural sector were the second-largest group of kidnap victims in 2000,* *277 were abducted last year.*

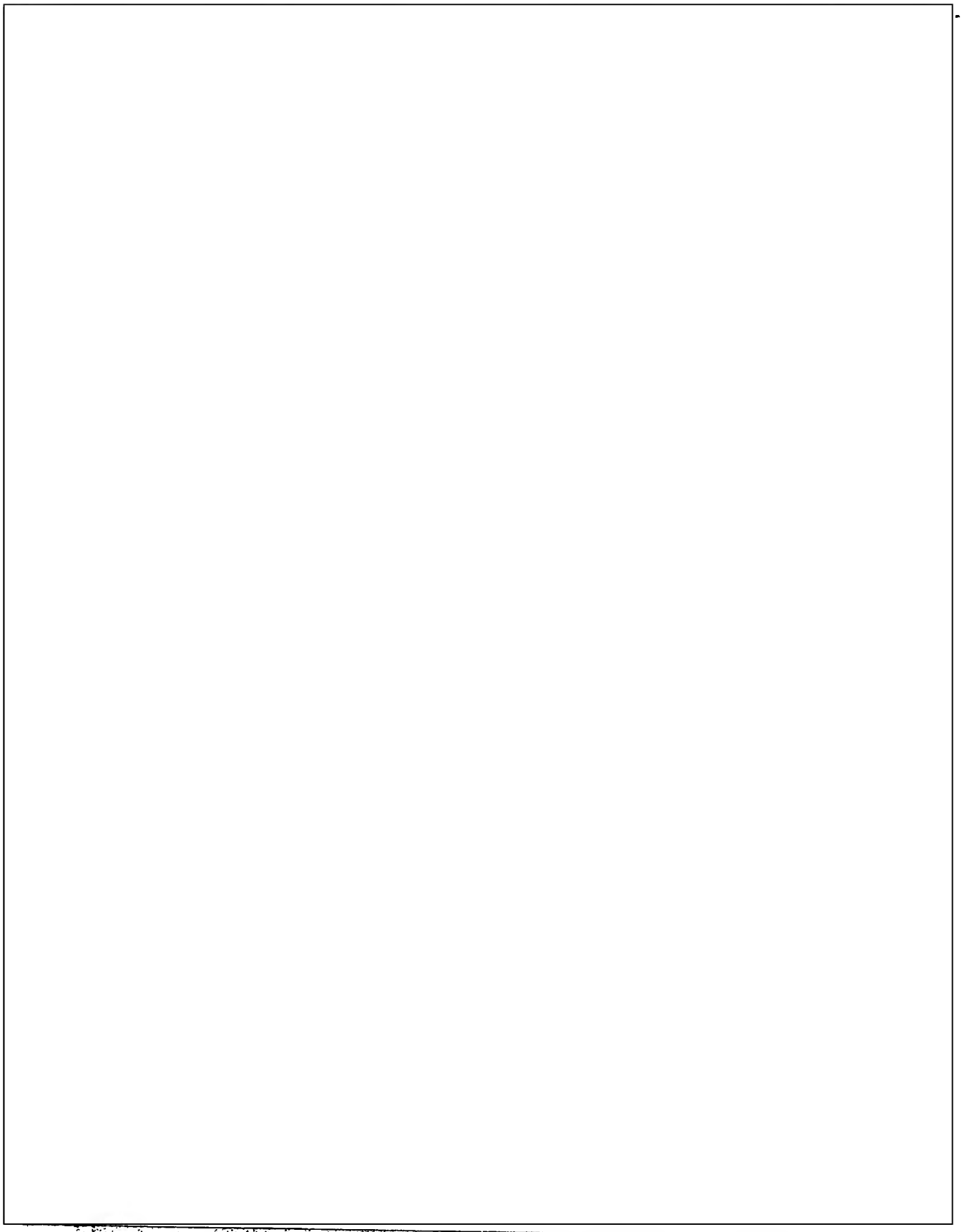
- *Roads are essential to success because high transportation costs for traditional crops are one of the reasons local growers turned to coca in the first place. Fragile soil and heavy rains complicate both road building and maintenance and agricultural pursuits.*

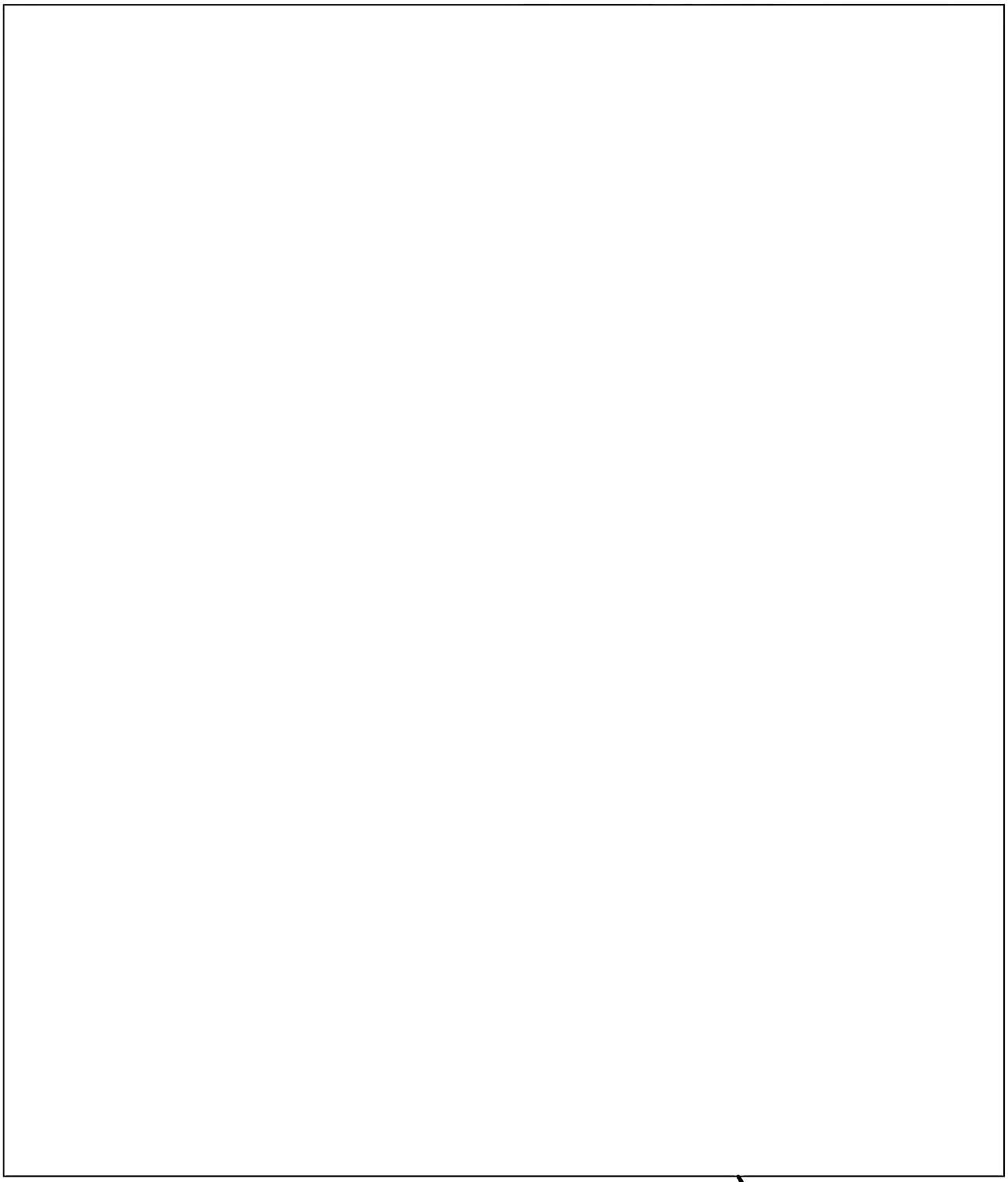
Contrary to expectations, income for the lowest links in the coca production chain is rather meager—making alternative crops attractive if marketing and delivery systems can be constructed and maintained. Some current estimates place peasant income at $150 per kilogram of cocaine base after paying for chemicals and other products. Potential substitute agricultural crops—such as rubber, palm oil, heart of palm, rice, and plantains—net significantly less, but phasing out the coca economy would reduce the cost of living in these areas.

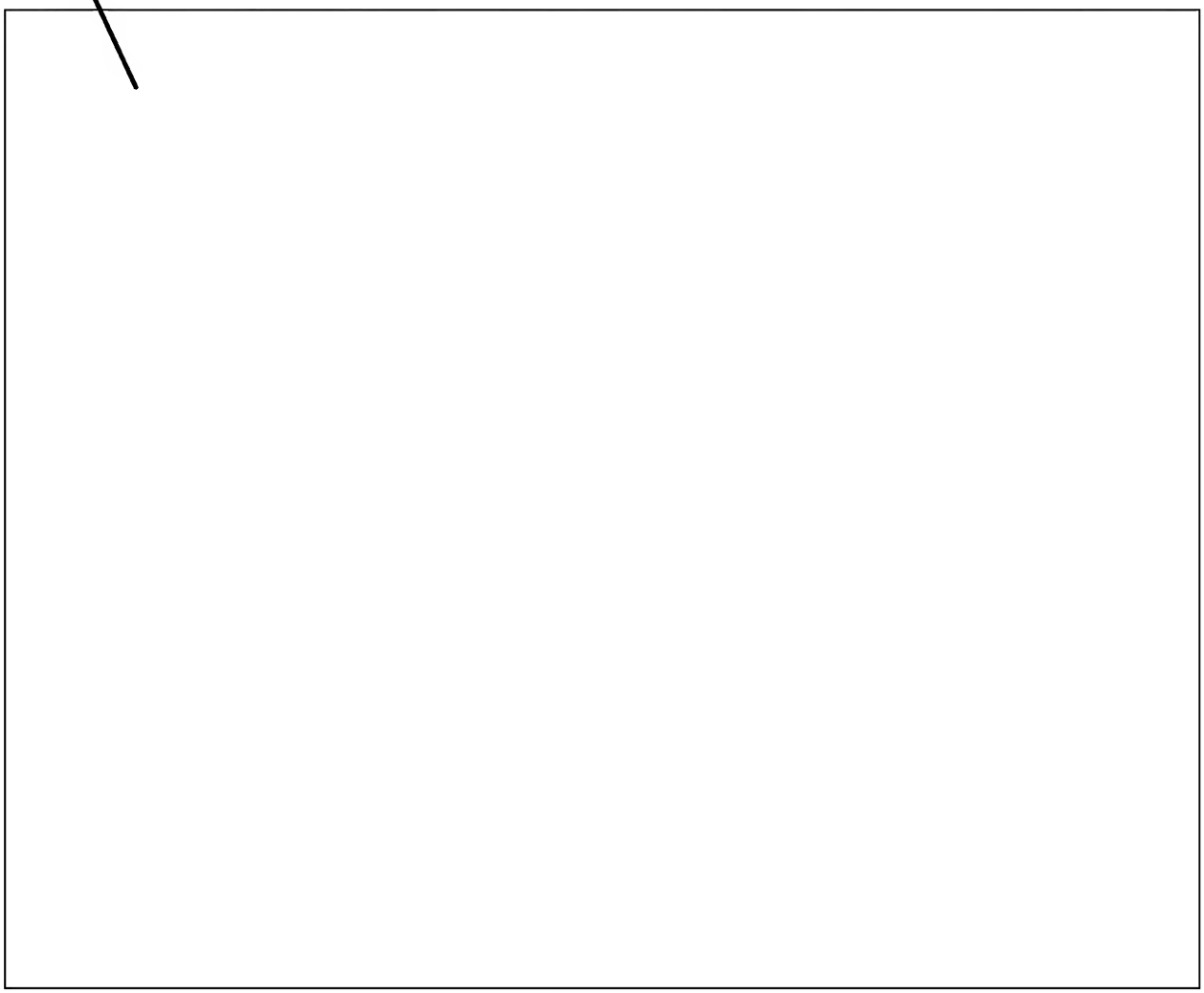
Integrated regional development is more palatable in Colombia than simple crop substitution. The governor of Putumayo, for example, wants an alternative development plan including rural electrification, crop substitution, petroleum investment, and construction of roads and bridges linking the area to both neighboring Ecuador and the rest of Colombia. Plans also are needed to provide sufficient laborers at harvest time; this has been a difficulty faced by earlier alternative development efforts.

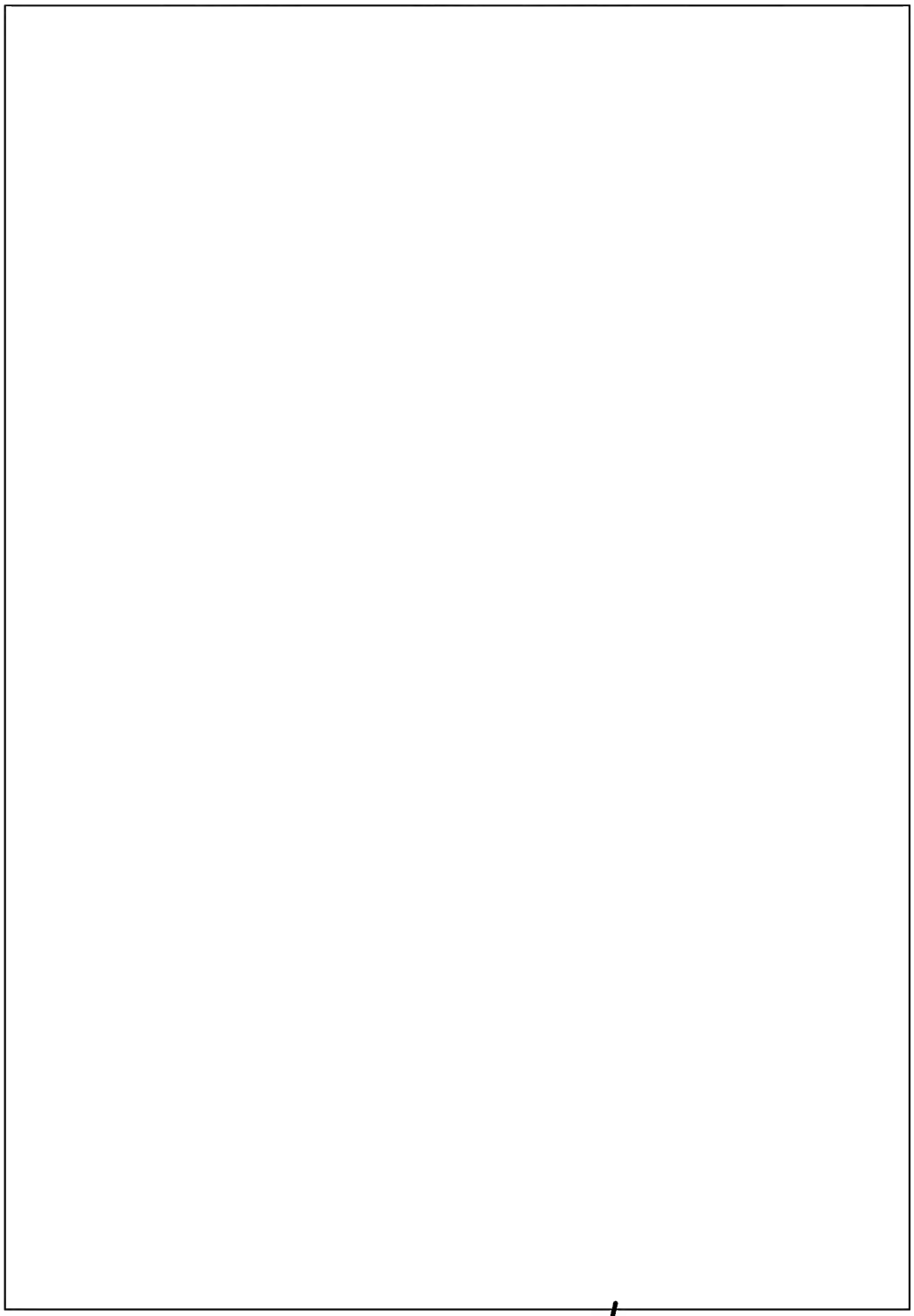


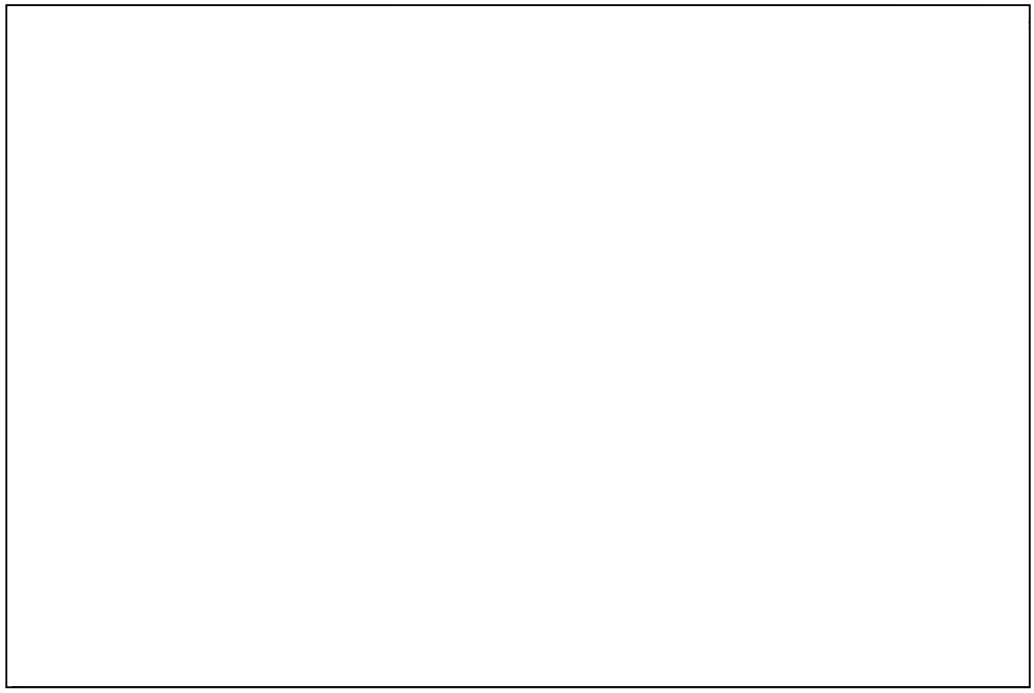








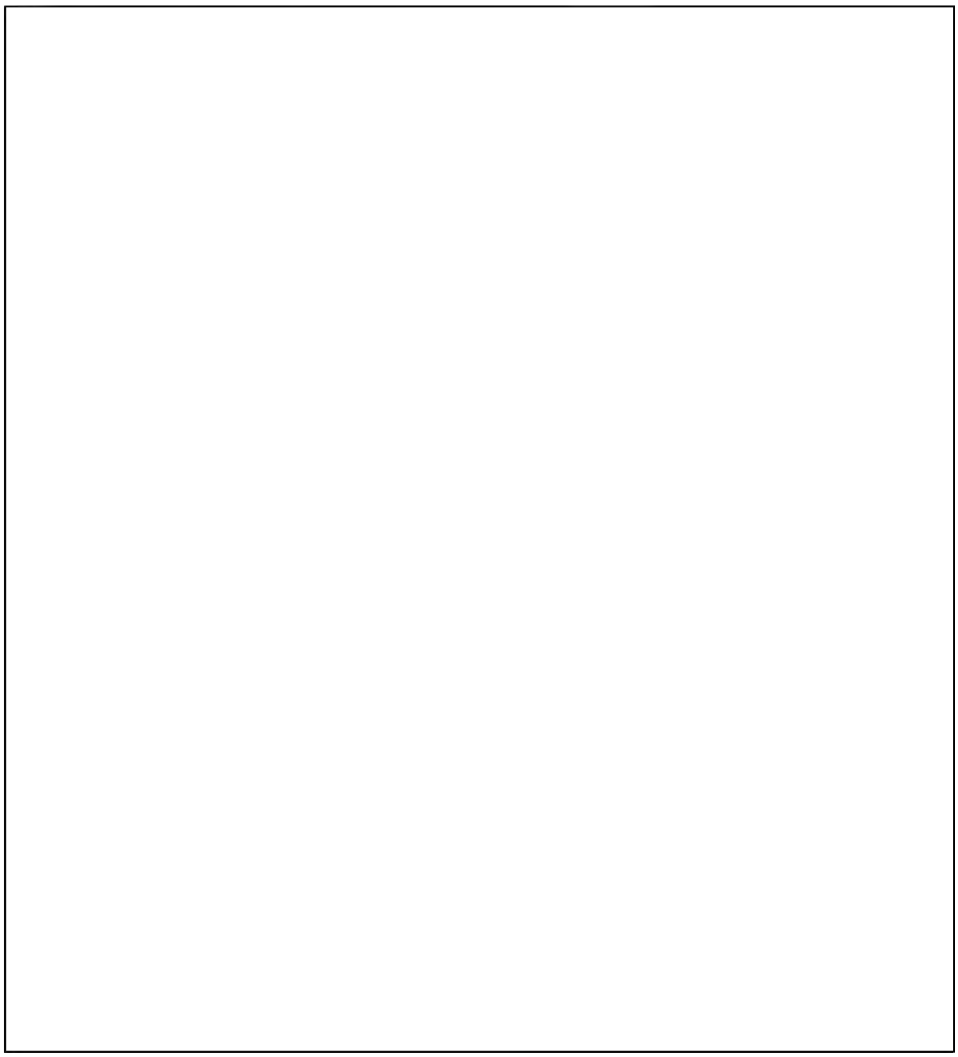


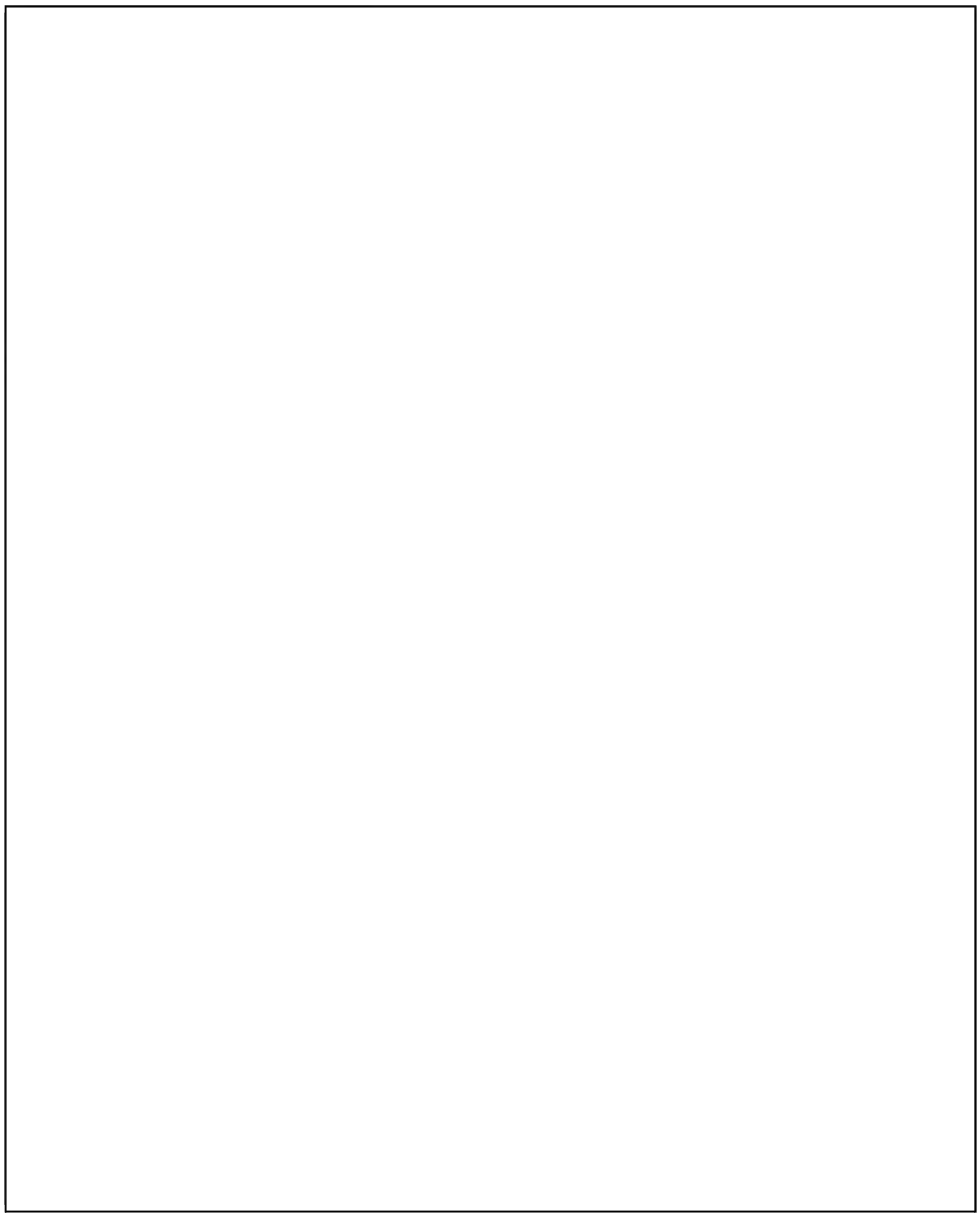


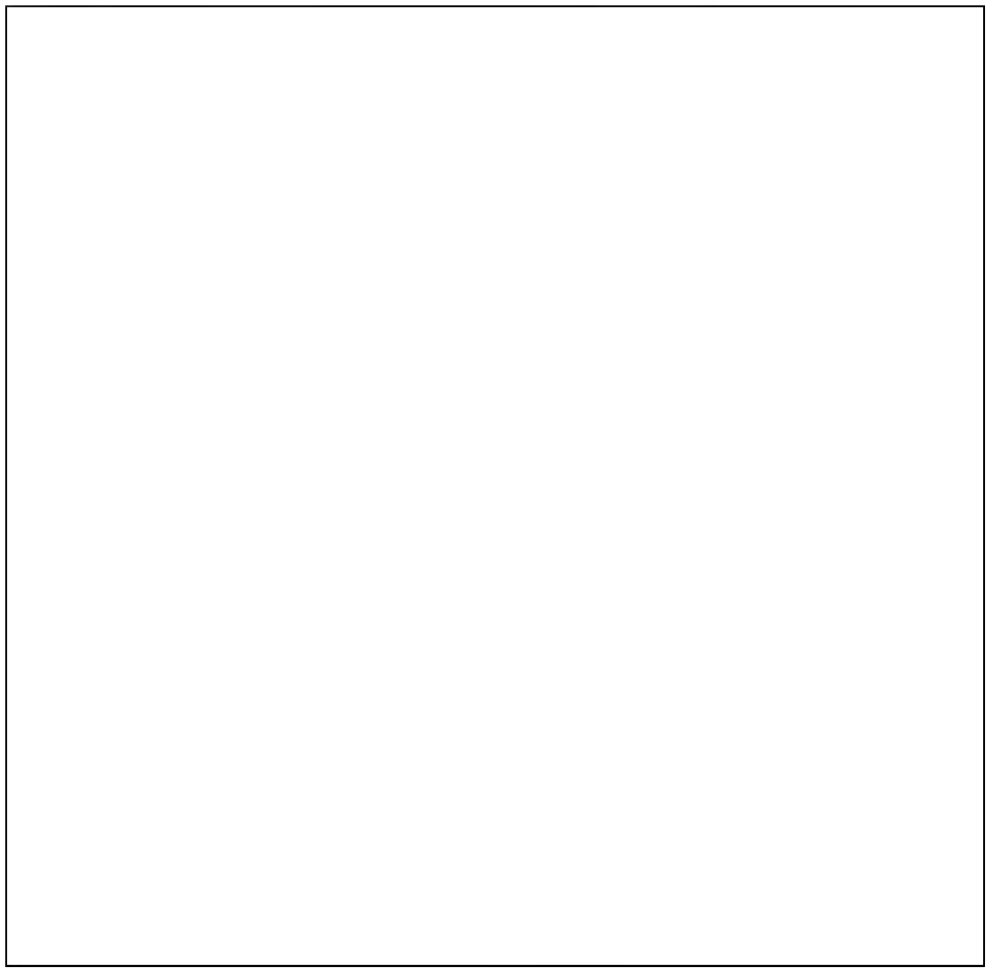
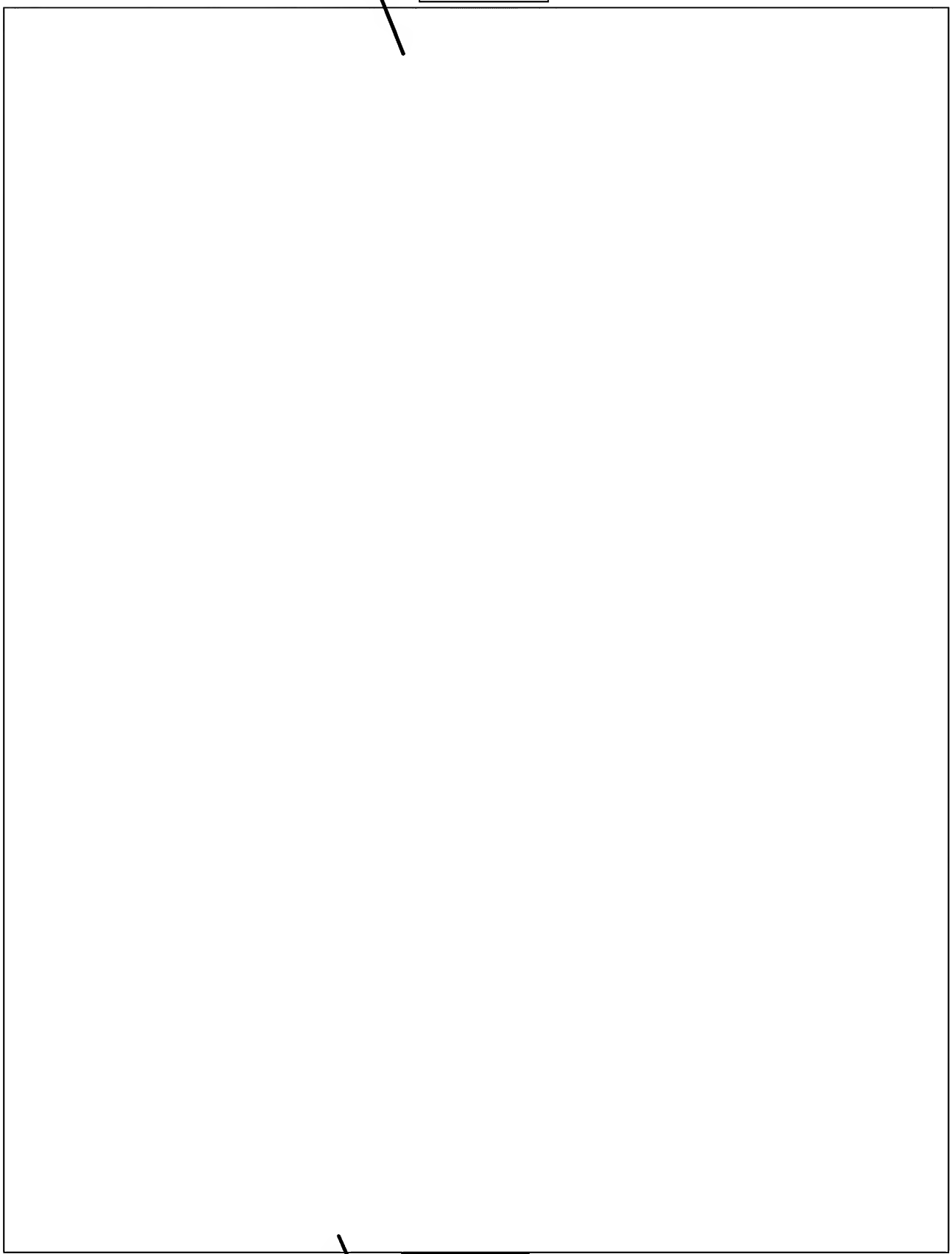
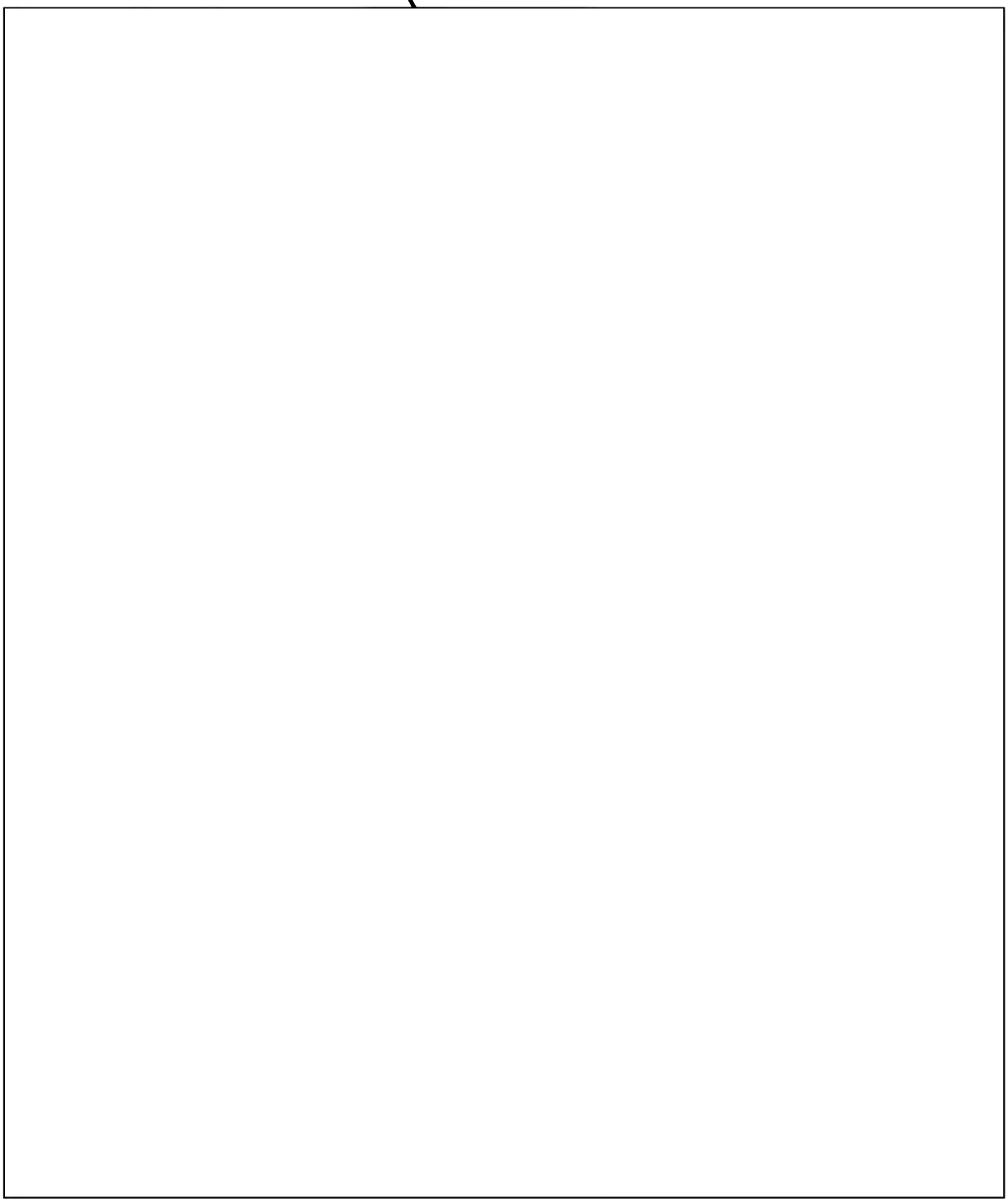
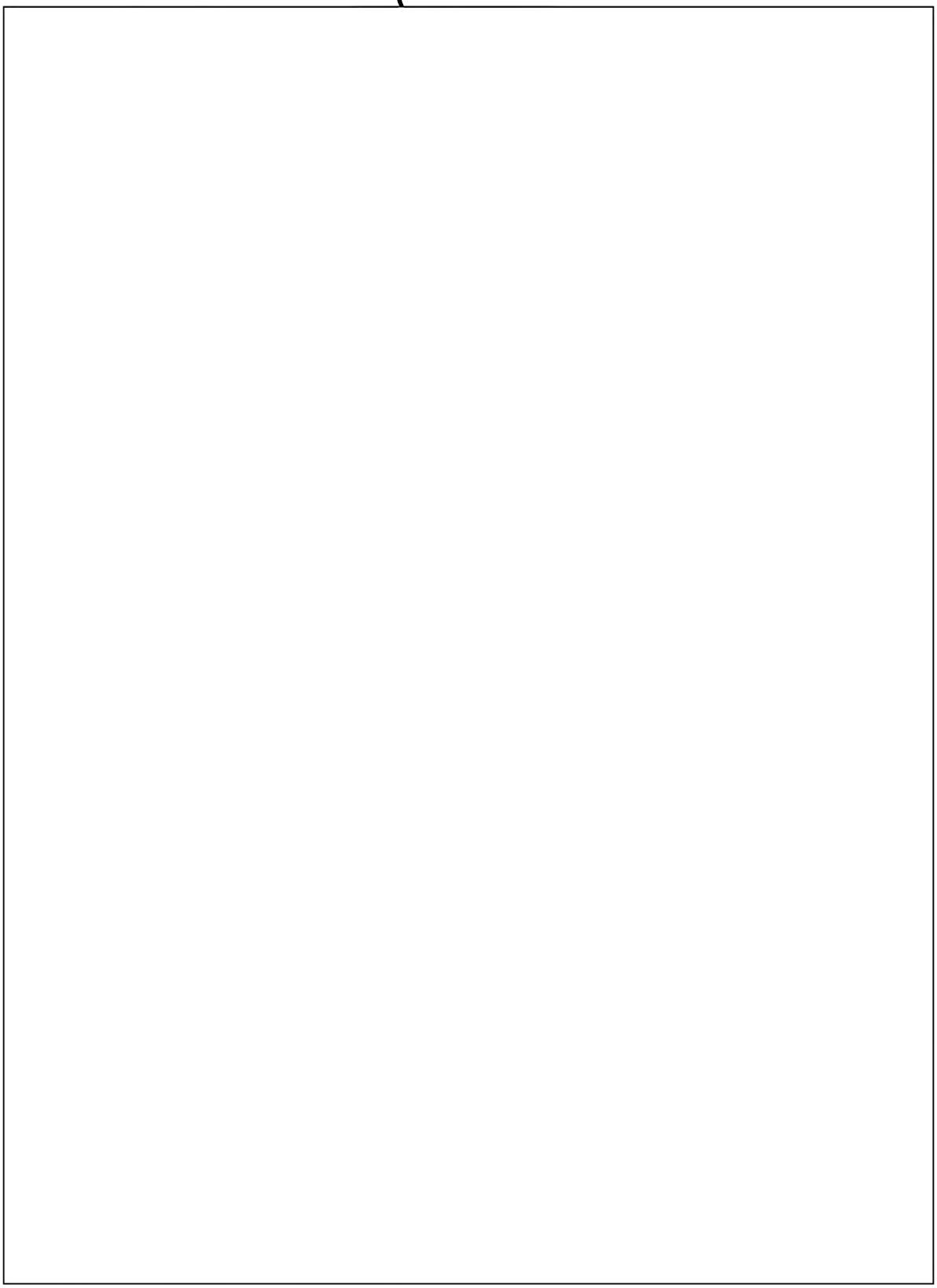
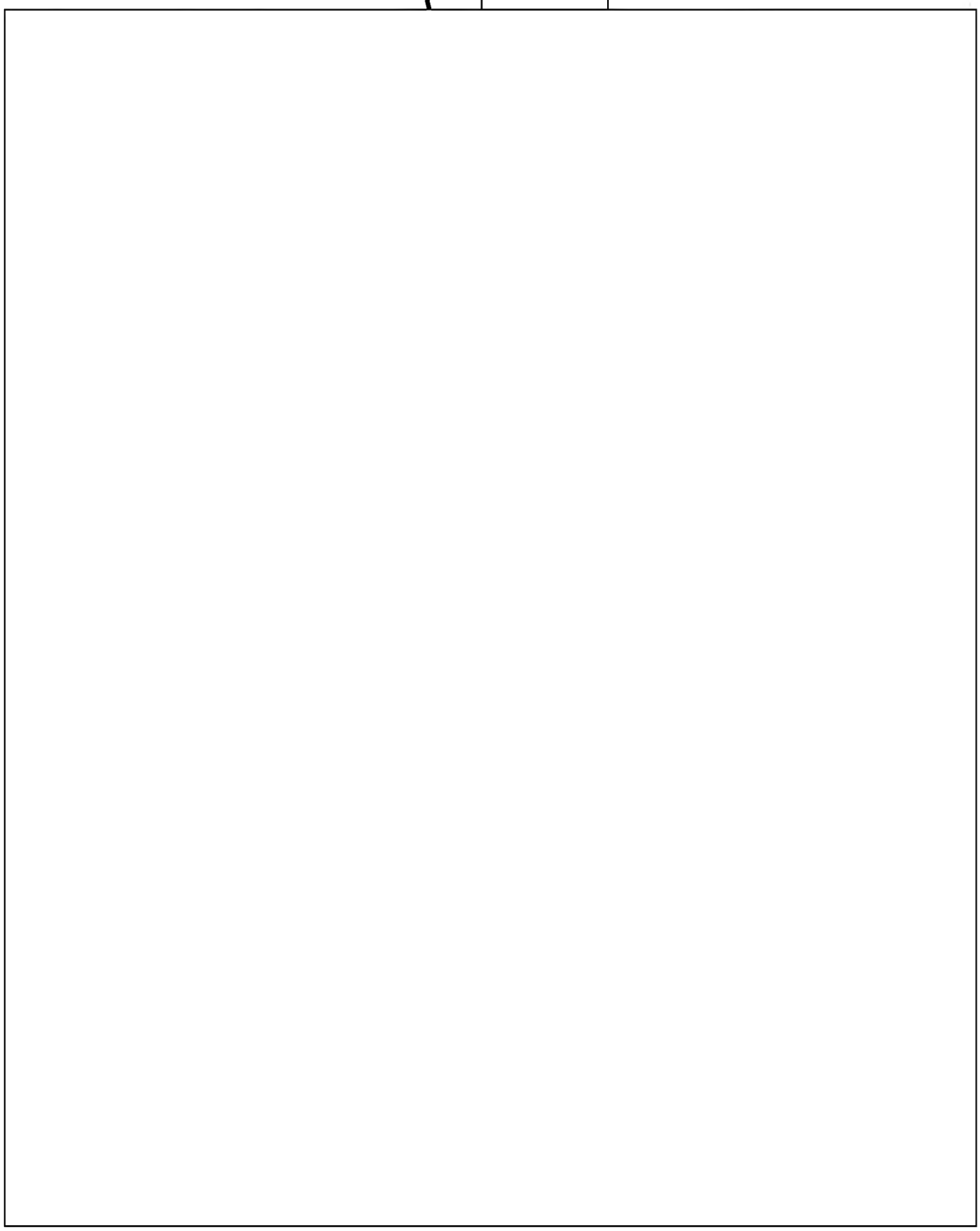
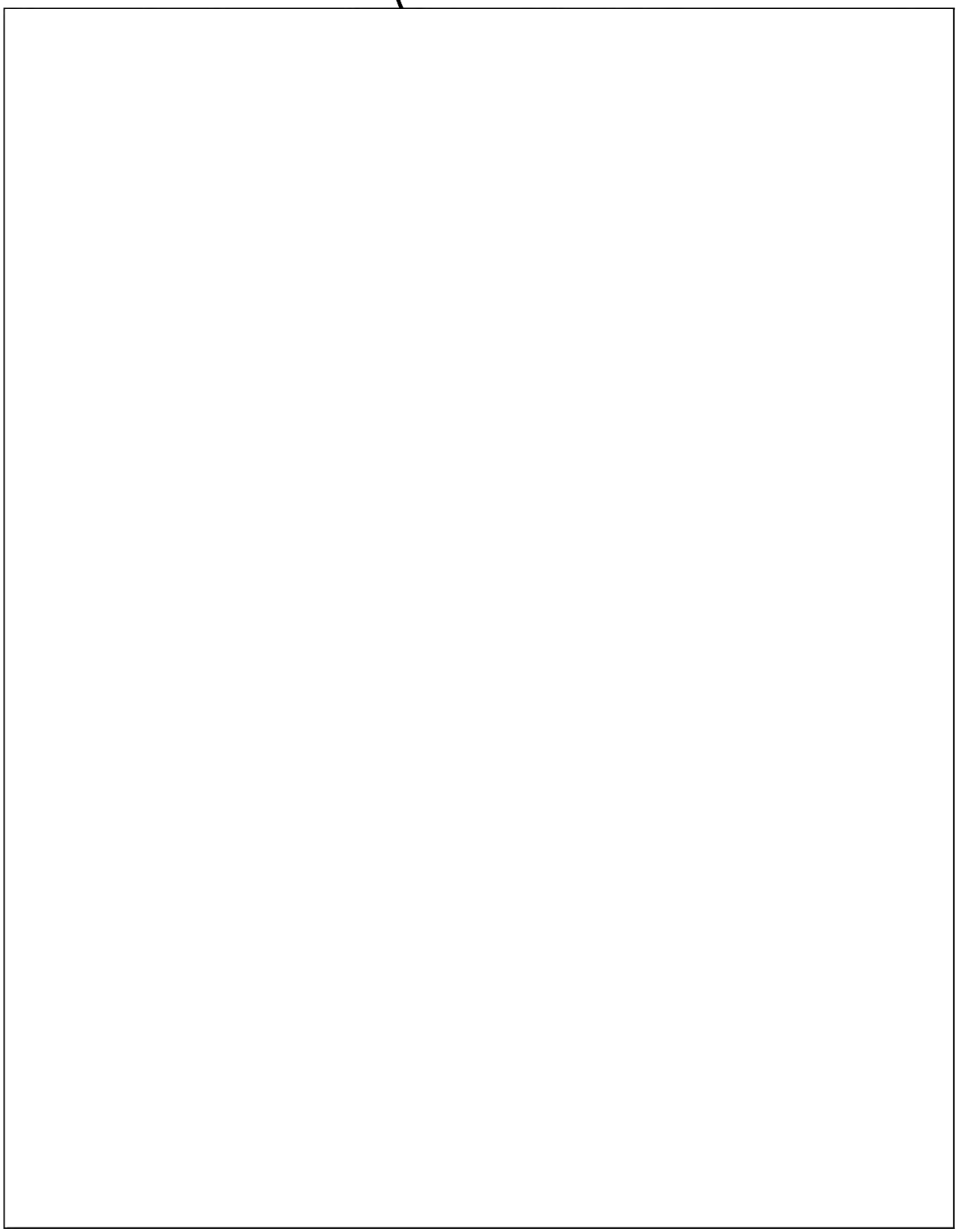
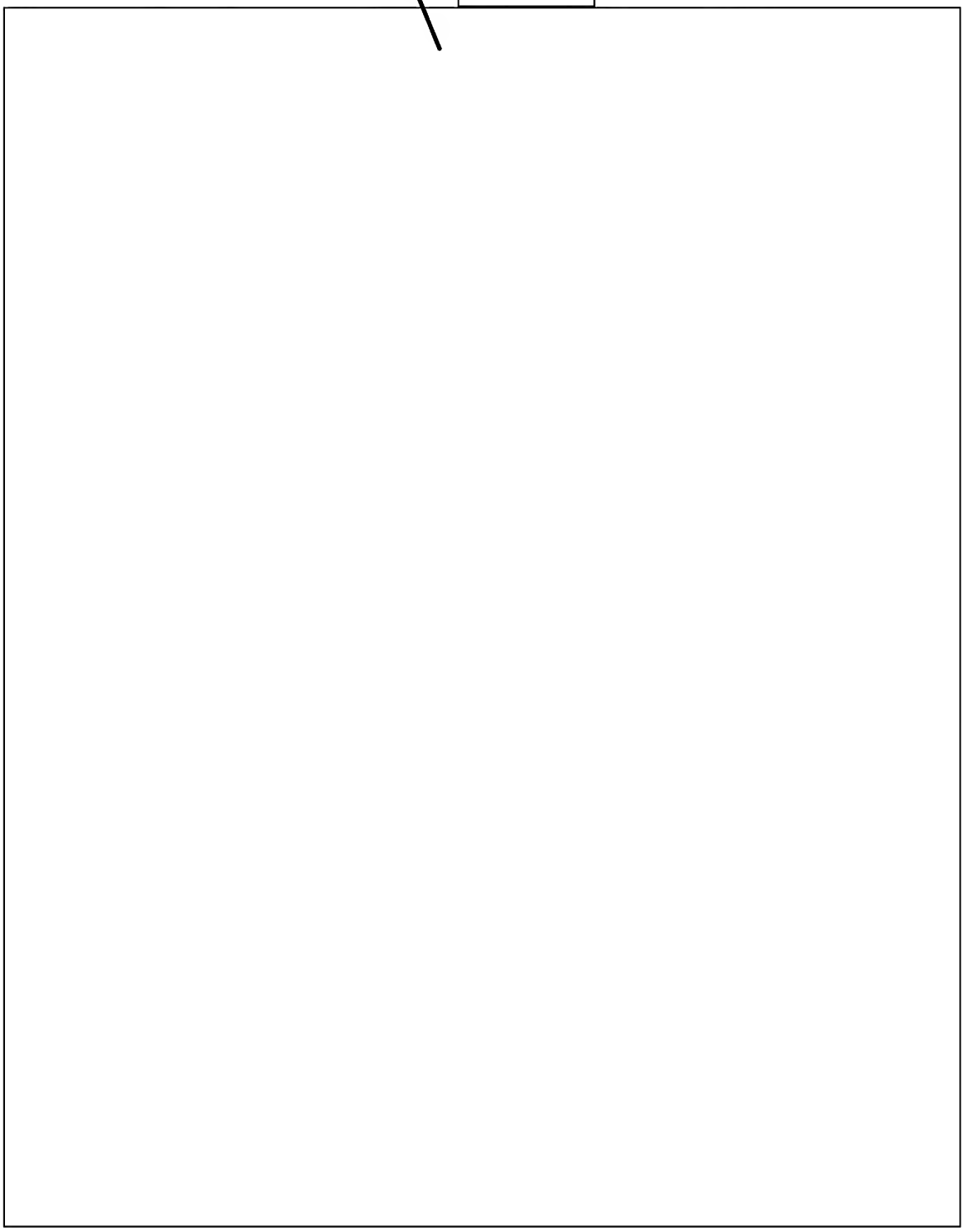
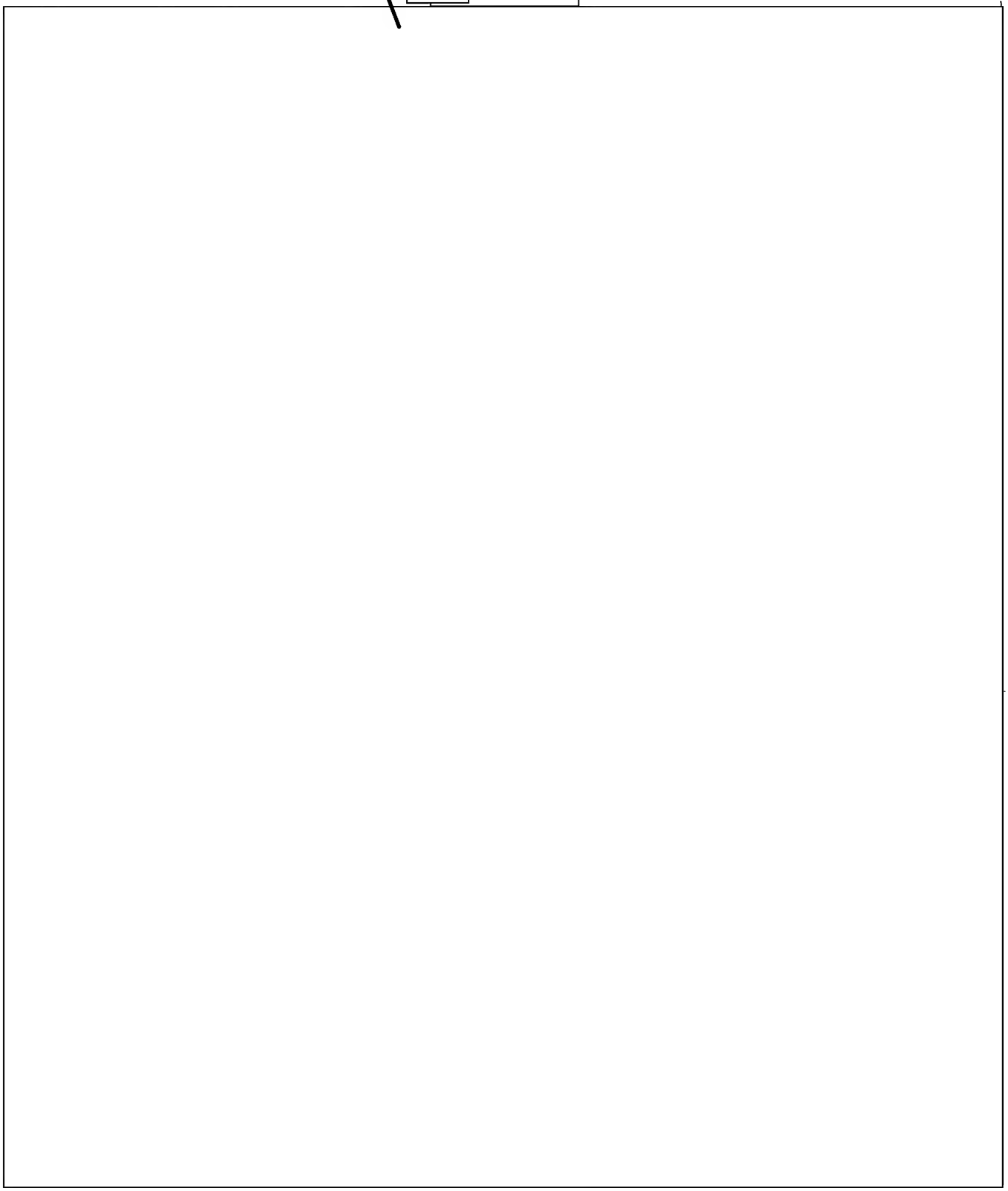
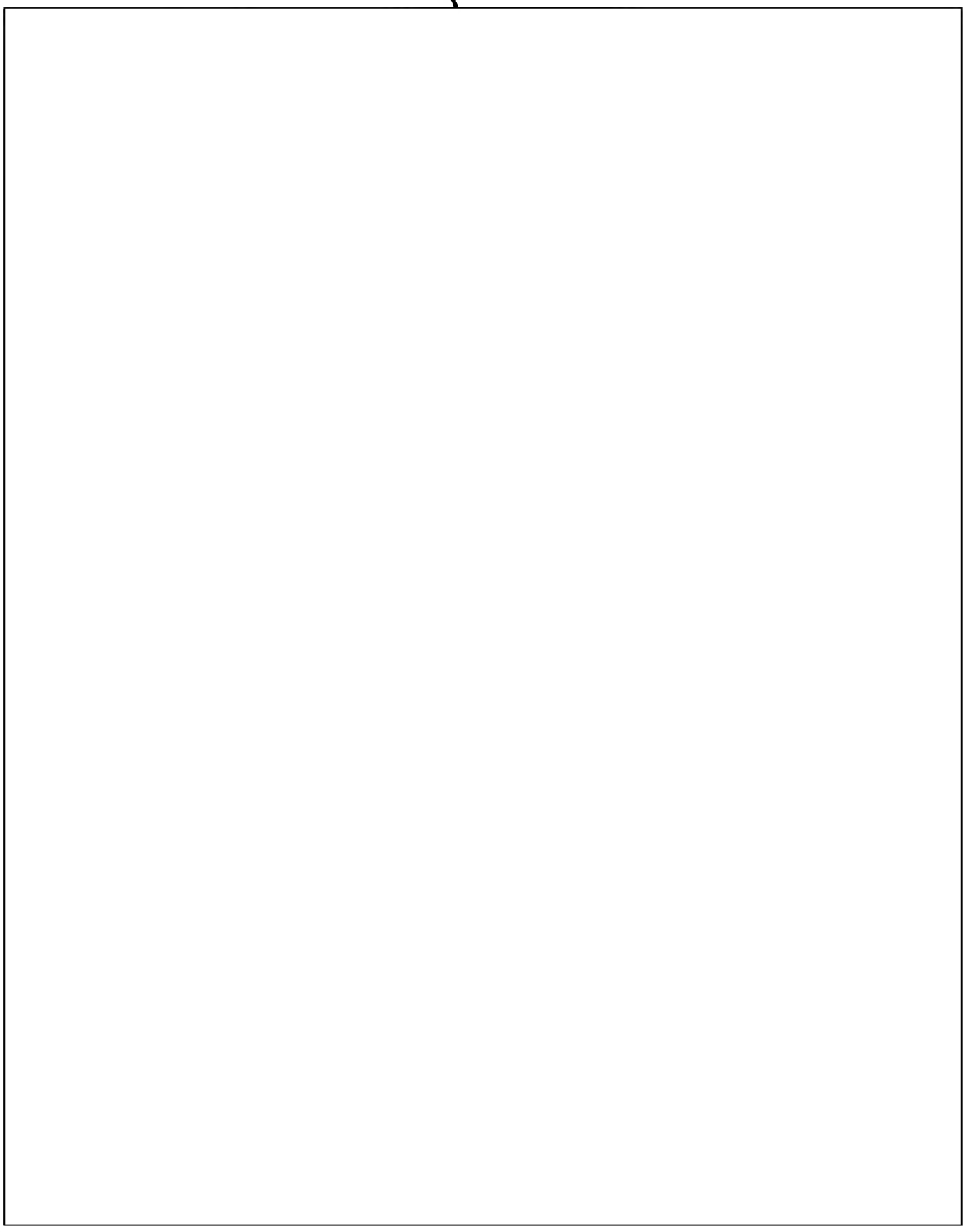
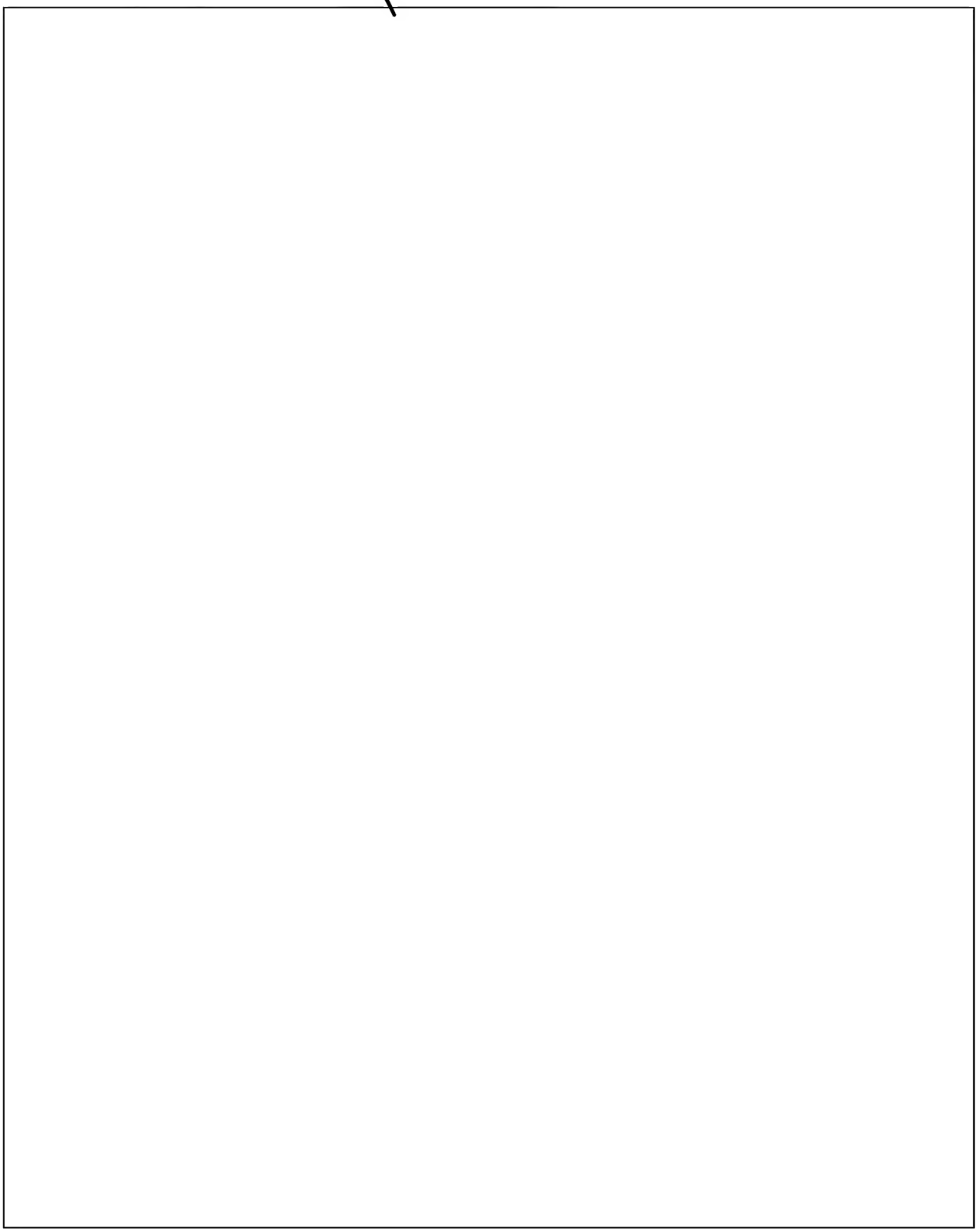
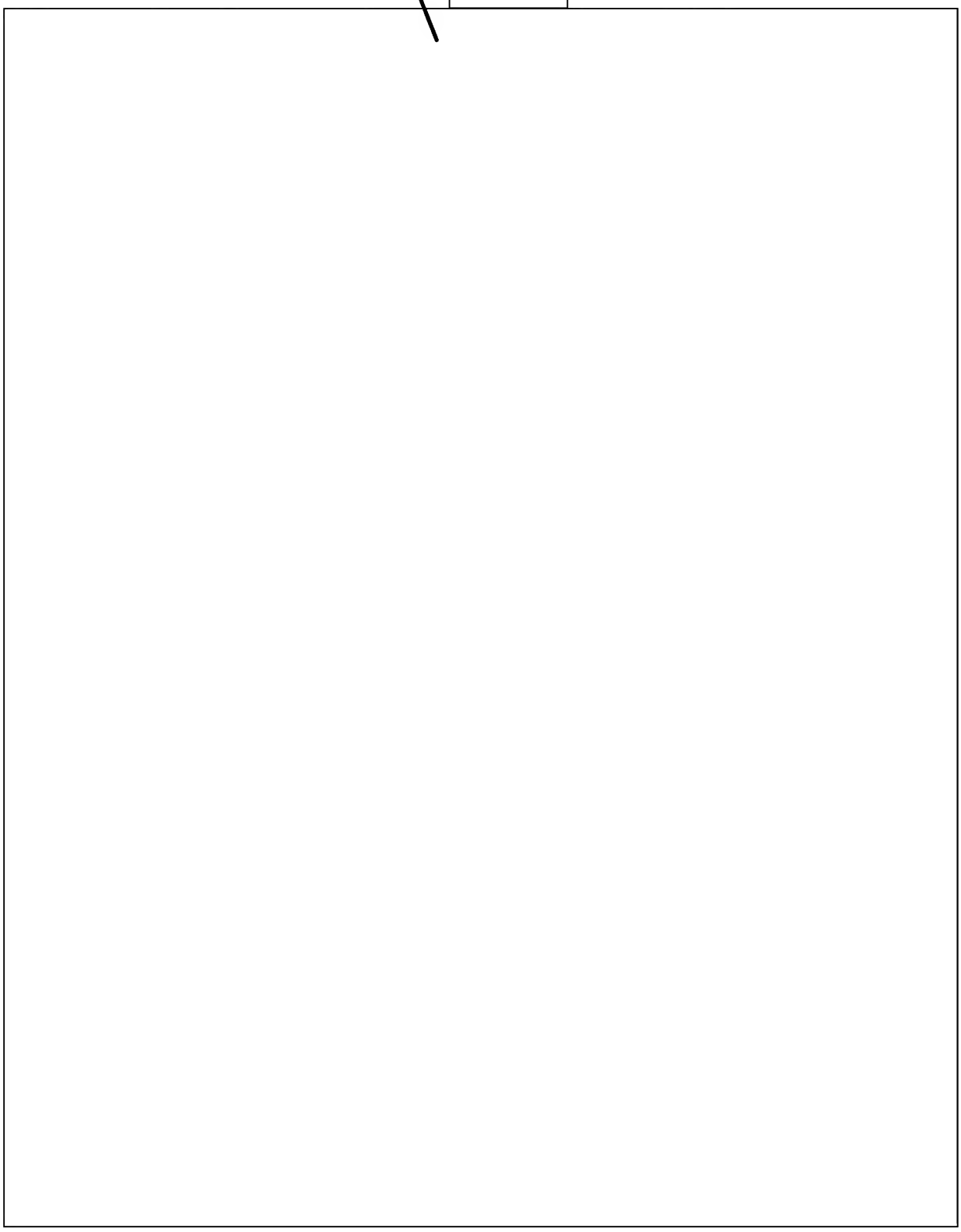
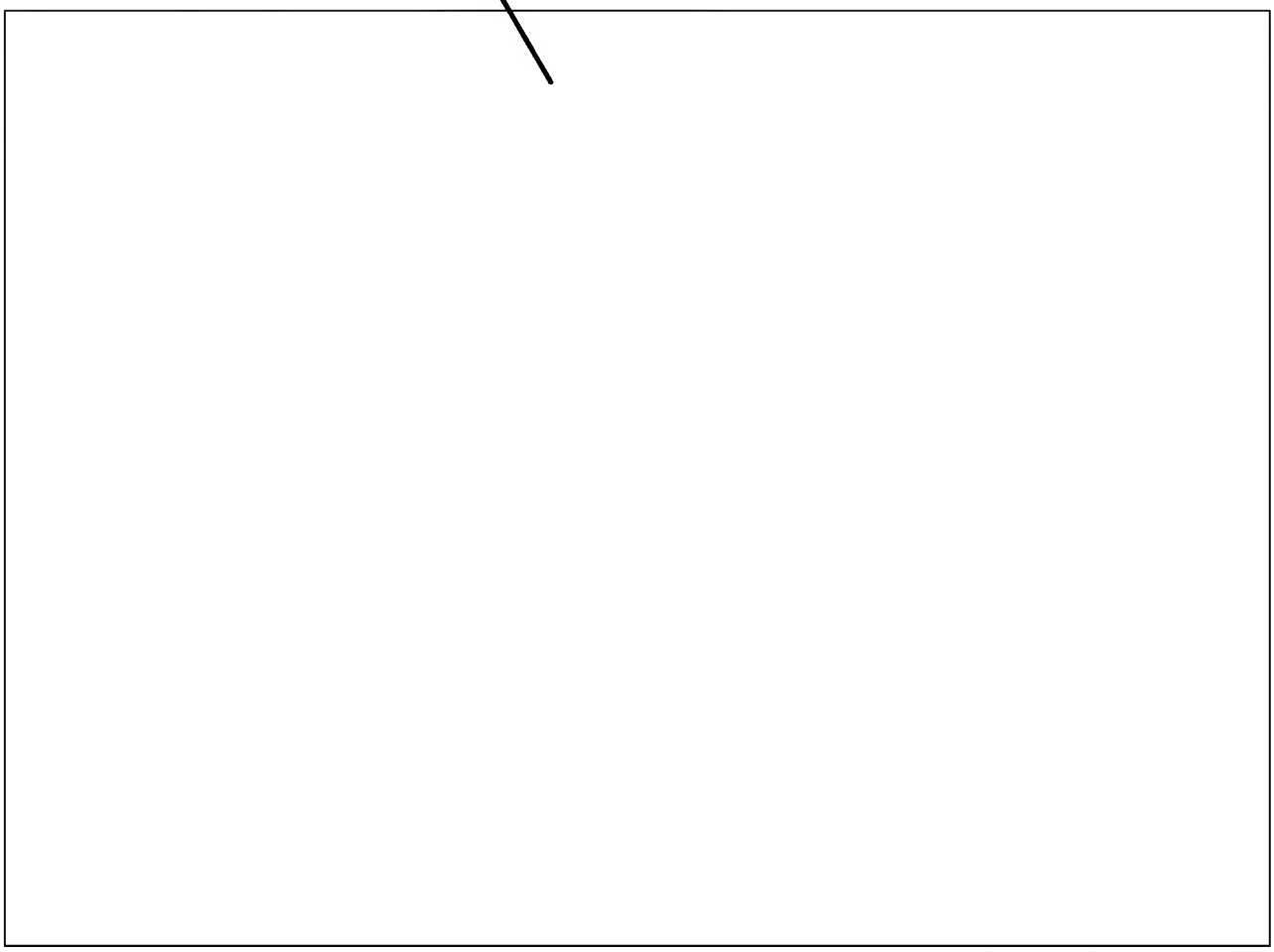
Appendix B

Estimating the Size of Colombia's Drug Economy

Bogotá's eradication and interdiction efforts have done little to constrict Colombia's thriving drug economy. Street prices for finished cocaine have remained stable over the last few years, and coca cultivation in Colombia has soared. Potential coca leaf production in 2000 was enough to produce 580 metric tons of pure cocaine; Colombian traffickers also had access to some 40 to 60 tons of Peruvian cocaine base.



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